Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: John Williams
ShadowStats.com

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Retirement Lifestyle Advocates
961 Four Mile Road, NW
Grand Rapids, MI 49544

Phone: (866) 921-3613
Email: info@plplanners.com
Website: www.RetirementLifestyleAdvocates.com

Dennis Tubbergen:

Welcome back to RLA radio. I am your host, Dennis Tubbergen. Joining me on today's program, once again, is returning guest economist, John Williams. For those of you that are unfamiliar with John's work, I would invite you to go to his website. It is shadowstats.com. The website again is shadowstats.com. I am a big fan of John's work. It's a great way to sort out what's really going on in the economy and inflation. John, welcome back to the program.

John Williams:

Well, thank you for having me, Dennis.

Dennis Tubbergen:

John, for our listeners maybe that aren't familiar with your work and what motivated you to found Shadow Stats, can you share just a bit about the kind of work that you do?

John Williams:

Sure. As an economist, I started off a fairly normal path with some new approaches to econometric modeling. Econometric modeling is how many economists try to forecast ahead. They'll look at the best relationship between different numbers, and then try and forecast ahead using their formulas. The problem is you have some big-scale models that'll take it three years into the future. The only problem is that the numbers that you're basing those forecasts on don't have a three-year lead time. You've got six to nine months lead time with most numbers at best. So I started off developing forecasts models with a basically six to nine month lead time. But that far out, you could predict things such as interest rates and movements in the economy.

John Williams:

Where I've had some success with that and people liked it, then the government started playing around with its numbers, which made the forecasting a little more difficult. I'm going to say playing around with their numbers. I'm talking about early 1980s. Let me take you a little bit further back in time. When Nixon closed the gold window in 1971, that effectively severed the direct relationship between the US dollar and gold, its convertibility. As a result, inflation began to surge. By 1981, we were beginning to see a pickup in the headline inflation. Gold generally measures inflation over time. If you look at gold, the price of gold, what you could buy with it in ancient Rome, let's say a loaf of bread, same amount of gold would buy you a loaf of bread today.

John Williams:

I had a monetary conference a couple years back in New York, and one guy was complaining how his mother had... This little girl had been taken to see Broadway plays, and his parents had always got the third row center, which is considered the prime seat. Today, they buy her seat for $5, and today, you couldn't take them close to it for $5 and be looking at a a couple hundred. What I told them very simply was that if his mother still had the $5 gold piece that they bought the seat for before, it would still buy that seat. Gold preserves a purchasing power over time. There's some variability, but when Nixon floated the dollar, people had less confidence in the dollar, inflation started to pick up and come in again to the early 80s.

John Williams:

The federal government was looking at what the higher inflation was going to do to the cost of living adjustment for people on things such as social security. So they decided to recast the way they calculated elements of inflation. The biggest factor right up front was the cost of housing. What they did there was they eliminated where people owned their own homes. The cost of people owning a home and everything that goes with that to converting it into what they called a homeowner's equivalent rent, which the effect was it knocked about one and a half percentage point off the headline CPI number out on an annual basis. That's for the whole CPI. So that reduced the level of the headline CPI, and it reduced what had to be paid out in cost of living adjustments. They met their goal there.

John Williams:

The problem was that was never the concept of the CPI or its adjustment. The idea of the Consumer Price Index, as it was originally defined, was the cost of maintaining a constant standard of living. You had, by 2005, you had people like the then chairman Alan Greenspan arguing that, "If a steak gets too expensive, people will buy chicken. So really, we should substitute chicken for steak when that happens." That's not maintaining a constant standard of living. The substitution effect that was put in there, that's just another element. Over time, what I did was I started estimating what the Consumer Price Index was ahead of, as it would have been had they not made their definitional changes to how the CPI was calculated. Over time, that has built up to be a fairly significant number of around eight or nine percentage points. So I estimate what today's CPI would be based on all the changes, if they hadn't been made, if they still reported the numbers consistently.

Dennis Tubbergen:

John, can I jump in there just a minute? Because I think a perfect segue for our listeners would be, and by the way, if you're just joining us, I'm chatting with economist John Williams. His website is shadowstats.com. So John, when you look at these, I think it's fair to use the word maybe manipulated. Maybe that's too strong a word, when you look at this manipulated CPI number, which came in just about 7% most recently, when you go back and calculate the inflation rate the way it was done in the '70s, what do you think the real inflation rate is presently?

John Williams:

It'd be up around 14.9, 15%.

Dennis Tubbergen:

Significant. So where do you see it going from here?

John Williams:

Well, first of all, that is, in terms of my measure, that's the highest inflation since 1947. In terms of the government's headline number, that's still the highest since June of 1980. I'm looking for it to continue to spike. Now in the week in which we're talking, the Federal Reserve is going to have its Federal Open Market Committee meeting. This is January meeting. They've already indicated that they're intensifying what they call tapering, cutting the pace of monetary stimulus that they put in place after the pandemic hit. The financial stimulus, the monetary stimulus by the fed has been a tremendous factor behind the surge in inflation. Even with what they're looking to cut back, we already have a very strong and increasing inflation base in place that's going to take a while to come back. As expectations move for higher inflation, it becomes self-feeding. I think they're going to have a very difficult time containing it. Not only are they talking about reducing the level of what they call, again, that tapering, cutting back on the monetary stimulus, the fed, at least last time around, blamed the inflation on robust economic growth.

John Williams:

Well, the headline gross domestic product, which is the GDP is the broadest measure of economy, and it has minimally recovered it's pre-pandemic peak, the basic economy has not. If you raise interest rates in something shy of a really booming economy, you're going to drive this already weak economy deeper into the ground, and that's what they're looking to do. There's no way they've got a strong enough economy here to blame robust activity on the surging inflation.

John Williams:

Let me give you an example as to why. Right now, we're seeing really extreme distortion still from the pandemic disruptions. The numbers are not being normally surveyed and calculated. I think when all the dust settles and we get better quality statistics down the road, you'll see that there's some exaggeration and things such as the GDP and numbers that are based on surveys by the government. For example, the unemployment rate. The Bureau of Labor Statistics used to go out and knock on doors and talk to people on the street. They don't do that anymore. They don't have their agents see people directly. The call them on the telephone. They can't reach them on the telephone, they don't get counted. They acknowledge that their unemployment estimate is shy of reality. Head Chairman Powell's indicated that as well.

John Williams:

But there's another element to the employment reporting that's on a different basis. That's called payroll employment. That reflects people who are employed and where payroll taxes are paid by companies to the government on the salaries, the incomes. Those are filings that are made with the states and the government. Those are hard numbers. From what I can see, it's really the only hard economic statistic out there at the moment where there's a solid base behind it. It's not tied to the whim of whether or not someone's available on the telephone during the COVID crisis. These are people who are actually working and receiving paychecks.

John Williams:

What you'll see right now is that although our payrolls are well recovered from the bottom, the bottom was maybe down 10.4% or so from the year before. We're now down something like 2.3%. They say, "Oh, hip hip hooray. We're recovered." Not quite. It's much better. What I've done is I've gone back and looked at the change in payrolls against the pre-recession peak, and all the recessions back to World War II, and that was they were down 2.3%. We're still 2.3% shy of recovering the level of payrolls seen before the pandemic hit. It's against the pre-pandemic peak.

John Williams:

If you go back and you look at historical recessions, that would be a weaker trough than five of the last eight recessions back to 1957. The others that were steeper were the Great Recession and such. It's improving, but we're still well shy of a normal economy. In other times, we'd still be deep in a recession. That's not the time when you start raising interest rates.

Dennis Tubbergen:

Well, John, the clock says we need to leave it there, but the good news is we have one more segment with John Williams. My guest today, Mr. John Williams. His website is shadowstats.com. I'd encourage you to check it out. I'll continue my conversation with John Williams when RLA Radio returns. Stay with us.

Dennis Tubbergen:

I'm Dennis Tubbergen. You're listening to RLA Radio. My guest today is economist John Williams, who's got a terrific website, shadowstats.com. John tracks economic data the way that it used to be tracked. John, let's just jump right in again. You had mentioned in the first segment that inflation calculated the way it used to be calculated is in the 15% range. You said you probably expect that to accelerate. It seems to me, John, the feds got too choices. They taper and the economy crashes, or they continue to create currency, and we have more inflation, maybe even hyper inflation. So how do you see this playing out?

John Williams:

Well, in fairness to the fed, what they did back in March of 2020, I guess it was, when the pre-pandemic peak was February, March, they started pumping an extraordinary amount of money into the system. They had to do that. They had little choice, because we're facing a potential systemic collapse. This is not just a recession. It was something unlike anything seen in modern times. So they pumped as much liquidity as they had to into the system to keep things afloat. They kept things basically afloat. The economy still had its deepest sinking of modern times, and it's come back some, but again, it hasn't recovered. Yet they have to keep that cash flowing to keep the system up. It's not fully recovered. Again, where they're talking about possibly raising interest rates, if they do that, that's going to tank the economy.

John Williams:

The fed's primary concern, they mention two things, basically inflation and economic growth. They want to keep inflation low and economic growth and employment high, which are fine goals, but the fed is owned by the banking system. The fed's primary function is to keep the banking system afloat. Where they have to keep the banking system afloat, which will generally go with the economy, they don't have too much choice here. They've got to keep pumping money into the system. You're going to see still higher money supply growth. You're going to see still higher inflation and I think accelerating inflation where we actually get to a hyper inflation. It can come very quickly once it starts, but people will talk about the velocity of money, the speed at which the money supply turns over in the economy. You take the level of the GDP and you take the level of the money supply and then nominal dollars, and divide the money supply into the economy. The higher the velocity, the higher the ratio there, the turnover. In theory, the higher will be the inflation rate. There's an element of truth to that.

John Williams:

But that's with a relatively healthy economy, because if you have a rapid turnover there, it means you have a strong economy and the inflation is being driven by strong economic activity. The dangerous circumstance is the one we have now with relatively low velocity where the money supply is expending rapidly, and the economy is sub-par, truly not growing much if you look at the better quality numbers, and it, again, hasn't recovered where it was. That's where you get too much money going after too few goods. That's what tends to spike the inflation and give you hyper inflation, like you saw in the Weimar Republic or Zimbabwe. We're seeing extreme stock market volatility this last week or so. It's not a happy circumstance. The fed is very concerned about stocks, because that affects a lot of their clientele in the stock market, and they want to keep the economy strong. Again, they've got to keep the banks functional, which means pumping more cash into the system. It means higher inflation, despite what the feds say. The rest of it is they're talking back and forth.

John Williams:

I think you're going to see in this week's FOMC meeting, a little bit of hedging there where the last time around, they were, "Oh, things are just fine and dandy, and we're going to go ahead and raise interest rates the middle of the year and reduce our monetary stimulus rapidly." It's going to be real difficult to do that, so they're going to be hedging back and forth. That's what I would look for them to do here. But the end result is still going to be higher inflation, and it's very closely getting out of control.

Dennis Tubbergen:

So John, do you see this ending in a hyper inflation? What does that look like?

John Williams:

Well, in a hyper inflation, yes, it's not a virtual certainty, but it's a fair shot. Especially if the fed starts killing the economy by spiking interest rates, you're going to be getting some kind of an inflationary recession, hyper inflationary depression. In that case, the money effectively becomes worthless. To give you an example from the Weimar Republic, before I was an economist, I was involved in the chainsaw industry, the family business. We imported a saw from west Germany, and I got to know the people there very well and had a chance to talk with people who had actually lived through the Weimar inflation.

John Williams:

This was after World War I, the Germans lost, the French effectively took their gold, and they printed money. As the inflation picked up, people knew they were getting into trouble, because if you wanted to, let's say, go out for a dinner one night, you would negotiate the price of your dinner before you sat down, because after the dinner, that would cost you more. If you'd had an expensive bottle of wine that night, the next morning, that empty bottle of glass would be worth more than it was the night before it was filled with expensive wine. Now that's how rapidly it was deteriorating at the end. But it got to the point that effectively the currency was worthless. You saw that in Zimbabwe, which is probably the worst hyper inflation anyone's seen. That was actually enabled a little bit by the US dollar. In Zimbabwe, the finance minister there said he was following the actions of our Federal Reserve Chairman, I think it was Alan Greenspan at the time. He was just printing money.

John Williams:

It got so what was a $2 bill eventually they kept reprinting, and they increased the denominations on what was equivalent of that $2 bill, it got up to something like $100 trillion dollars. Never seen anything like that before. But what happened was, and there may be some lesson here or something that falls in between, but I think gold and silver are the areas that remain the best store of wealth here that will save the day for many people, is that at that time, our US dollar was reasonably stable so that if you were working in Zimbabwe and you got paid in Zimbabwe dollars, you immediately ran down to the black market and exchanged it for US dollars. You held those dollars as a store of wealth.

John Williams:

Here, we're looking at a problem with the US dollar. It hasn't hit yet. We're seeing higher inflation, but that's a depreciation of the purchasing power. Most people's incomes are not rising at 14% per year right now. So they're losing purchasing power. When that's rising at 1,000% per year, the purchasing power is going to evaporate. Again, the currency becomes worthless, so you try and convert the cash into something that has some value. In this case, the US dollar is the element that's going to be hit. Holding physical gold and silver as a traditional store of wealth and one I think is probably the best bet right here, it's worked over a millennia. The governments do everything they can to try and squelch the purchasing of gold and silver, because that usually indicates they're not doing their job. But since Nixon went off the gold standard and I started publishing my alternate CPI measure, if you plot the price of gold against the CPI, you'll see that the price of gold has hit up around $2,000.

John Williams:

Well, what used to happen was at the time that Nixon went off the gold standard, the price of gold was around $78, 79. That happened to be the level of the CPI as it's currently published on an historical basis for that period of time. My number would be the same, because my numbers don't start changing against the headline number until the early 1980s. If you look at a plot of gold, which skyrockets, curved upwards, the headline CPI rises, but it flattens out. My number keeps right up with the price of gold. In fact, what my number is telling me is that the real inflation is up around what you're seeing with the price of gold, in terms of change, that the price of gold is still holding even with inflation, maintaining your purchasing power.

Dennis Tubbergen:

John, in the time we have left, it seems that this move from a fiat currency to gold and silver perhaps has begun. I just read an article that I think the central bank of Russia now actually has more of the reserve holdings in gold than in US dollars for the first time in history. So are we seeing the beginning of this movement out of fiat toward gold and silver, in your view?

John Williams:

Well, we have been for some time. Not only the Russians, but the Chinese have both been extraordinary buyers of gold. They have a pretty good sense of where things are going. They view themselves as our competitors. I'd be encouraging people to... At least in the United States, people have the ability to buy physical gold and silver. I look at coins for the reason that if we get into a hyper inflation, and that's the real danger here, which could kill you otherwise. Hyper inflation, your paper currency becomes worthless. But in a hyper inflation, if you go to the grocery store, let's say you bought a bag of old silver US coins, you can trade a quarter for food, you can trade a quarter for food with a farmer out in the country. Things are not going to be easy in terms of regular commerce. Back in Germany, the stores, the shelves just went empty overnight with the panic there. But with the precious metals, you have something that you can actually barter with that are meaningful. The gold for bigger areas as well.

John Williams:

But I tend to buy coins, because people recognize the coins as being legitimate, or at least they'll say, "Okay, that's probably real gold or real silver," as opposed to a bar that they might want to asset. In a barter situation, I think the coins are the better bet.

Dennis Tubbergen:

Well, my guest on today's program has been Mr. John Williams. His website is shadowstats.com. I would encourage you to check it out. John, always a pleasure to catch up with you. Appreciate your updated forecast, and would love to have you back again down the road. Thank you for joining us today.

John Williams:

Well, you're most welcome, Dennis. Always enjoy talking with you. Good luck.

Dennis Tubbergen:

We will be back after these words.