# Retirement Lifestyle Advocates

## RADIO PROGRAM

Expert Interview Series

Guest Expert: John Williams
**Shadow Government Statistics**

Date Aired: October 30, 2022

**Produced by:**

**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'm your host Dennis Tubbergen. I have the pleasure once again of interviewing a gentleman. He's a very timely guest given what the headlines are. John Williams joins us today. His website is Shadow Government Statistics. The web address is shadowstats.com. John tracks economic data using, I'll just say, the original methodologies, but I'll let him tell you more about his work momentarily. Hey, John, welcome back to the program. Thanks for joining us.

**John Williams:**

Hi, Dennis. Thank you so for so much for having me.

**Dennis Tubbergen:**

John, for our listeners, and our audience keeps growing significantly, actually, tell them a little bit about your work and how you got started doing what you do at shadowstats.com.

**John Williams:**

Well, I've been an economist for a long time. Started in a ... I studied economics at Dartmouth and econometric modeling. I got into that and got into some unusual economic forecasting. Went into the family business, imported chainsaws from Germany and sold that. I was trained as an economist. I had developed my own econometric models on the economy and started selling forecasts, where we could forecast based on leading indicators. That worked pretty well until the government started changing its numbers, and I say changing its numbers, actual redefinitions that in some cases did not have a good motivation behind them. I found that I really had to look very closely at what they were doing. I restated the government's numbers the way they used to be, and approached people in the industry, who needed some consistent measures of inflation and such over time.

That gave birth to Shadow Stats. I'll give you a very specific example of what happened. The government, federal government, Congress, was looking at terrible cost of living adjustments back in 1980, 81. I think it was double digit. In fact, we just had a headline inflation number of 8.2% year over year in September. Last time you saw anything like that was back in 1981. At that point in time, what the government did, because this would adjust the cost-of-living adjustment on social security, and I think the headline number, and that's something like 8.7%. They use that, they actually use what they call the CPIW, which is a more specific measure of inflation. The CPIU, which is the one that gets all the headlines, but tends to be a little higher, I figure that should have been about 17% had they not made the changes back in, they started making the changes back in what was then 1982.

What they did, very simply, was to take key elements and redefine them with a specific goal of reducing the headline consumer price index that would be used to adjust the cost-of-living adjustment for social security. If they could do that, that would help them. It would bring down the government's costs and make balancing the budget deficit a little easier. Not that they've balanced the budget deficit, but they occasionally do make an effort at it.

What happened here, first thing they did, first thing they changed was one of the biggest measures in the CPI in terms of waiting, and that's the cost of owning a house. They invented a new concept, so instead of having housing cost, it was redefined as what they call homeowners' equivalent rent. What the government did was they modeled what a homeowner would be paying himself to rent his own house, renting his own house to himself. Once they had done that, they calculated the inflation as being how much the homeowner would then raise the rent on himself each month going forward in time. The nonsense number, once they put the new calculations into effect, I think it had ... The number I remember seeing at the time was that it knocked one and a half percentage points off the CPI. Many changes have been made over time. In terms of changing the concept, and frankly I take offense at that, I think the government should keep its word to retired people, those pensions, who are living on some kind of an adjustment tied to inflation.

The way the cost-of-living adjustment had been defined, it was supposed to be the measure of what was needed to maintain a constant standard of living. The housing thing was just a straight gimmick. Then, they went after some basic principles. For example, Allen Greenspan argued that "Well, cost of steak goes up, people tend to buy more chicken." That's accurate, that people will do that, but that's not the concept of the cost-of-living adjustment, of the CPI, maintaining constant standard of living.

As far as I'm concerned, having chicken instead of steak is not the same thing. What they did is a whole shifting of concepts over time, but the government, very straightforward about what it does. It always will tell you what it's doing. It also estimated what the different changes that it made to the CPI, it did to the CPI, and almost every change had the effect of reducing the headline CPI.

What I did was, I just reverse engineered what they did. When they take it out, I'd put it back in, and report what I call the shadow stat CPI, which tends to mimic what the original consumer price index would've been had they not made all the changes.

**Dennis Tubbergen:**

John, let me just jump in there because you had made a comment of 17% earlier in this segment. Is that what you would estimate the actual inflation rate to be using this original inflation calculation methodology?

**John Williams:**

Yes. In fact, for September, where the government's number was 8.2% year over year, mine was 16.4. Mine hit a peak of 17.3 in the current reporting in June, which is when the government hit 9.1%. Yes, that's where we are right now. Again, that's interesting ... What my number is, is where the cost-of-living hit, I think it was 1980, which triggered this whole thing. The government, that's when the Congress said, "Hey, we got to bring down the measurement here, the cost of living." It was 80, I think it was around 17%, and then it came down pretty close to where we are now with the headline number, somewhere around 8%. That's when they made the change. That's what triggered them to do it, because those are very expensive cost of living adjustments going forward. Right now, I think it's, again, I'm saying don't count on your check being this, but I think it's right at 8.7%, the cost-of-living adjustment.

**Dennis Tubbergen:**

I think that's right, for 2023. Yes.

**John Williams:**

For 2023, that's a significant increase. It's going to take a bite out of the government's spending, and it's going to widen their budget deficit. That's the same problem they faced 40 years ago. All these numbers, you hear that, "Oh, it's the highest number since 42 years ago." That's because they reduced the way they calculated inflation after that.

If you look at my number, which was, I think it was the 1980 number, it was up around 17%. Pretty close to what I've got right now. My number, actually now, against the way they reported at a 75 year high, so just the way they shifted the reporting around. It was a significant change. It did save them some money. On the backs of people collecting social security, the cost-of-living adjustment, it was not reasonable as far as I was concerned. I didn't think it was right, but that's what the government did.

**Dennis Tubbergen:**

John, let me ask you just quick, we've got a couple minutes left in this segment. The Fed is now talking tough, but the interest rate increases don't seem to be nearly enough, at least in my view, to get inflation under control. What do you say?

**John Williams:**

They're doing it completely backwards and they know it. The Fed has, as I view it, the Fed is basically doing what it needs to keep the banking system afloat and solvent. The Federal Reserve is owned by the banking system. The local banks own the regional federal reserve banks, on up the line. There's a couple of things that are driving me inflation.

Number one is the money supply, no question. That's not coming down. In fact, there are some extraordinary numbers with that, which I'll get into. You have the supply distortion from the pandemic, that's still affecting things. What's not driving the inflation right now is an overheated economy. If you listen to the Fed say, "Economy's so strong, we have to raise interest rates in order to cool it and bring down the inflation." If it was an overheated economy and that was driving the inflation, then raising interest rates would help to reduce inflation.

That's not what's happening. The economy is morbid. In fact, a lot of signs that it's declining again. We had two negative quarters, the first quarter, and the second quarter of this year. Looks like we've got a third quarter number coming out the end of this week that probably is going to be on the plus side, according to Fed estimates up around 2%. The GDP is overstated by that. If you look at the employment numbers, payroll employment just recovered its pre-pandemic peak last month. We're well into the pandemic here, but just last month it recovered it by about 100,000 jobs. Normally, you gain 200,000 jobs a month in a standard economy. That 200,000 jobs reflects students coming into the workforce and that of people retiring.

Right now, we're about 5 million jobs shy of where we should be, had we had a normal economy and what the economy should be able to support right now. The economy's not back to normal. It's far shy of where it should be. Employment, it's not an overheating economy that's driving the inflation. The reason the Fed is raising the interest rates is it wants to get interest rates higher. Banks need higher interest rates. They also want to maintain liquidity; they want the liquidity in the system. That's why they're not reducing the money supply. If they were reducing the money supply, they could bring the inflation rate down, but they're not doing that. It's saying things are, right now, you're getting a little bit of double talk out of the Fed, but they're not really doing anything to bring the inflation down.

**Dennis Tubbergen:**

John, I'm going to have to end it there, this segment. The clock says we're out of time. The good news is Economist, John Williams will be joining us again in the next segment. If you'd like to learn more about his work and I'd encourage it to do that, go to shadowstats.com. John's website is Shadow Government Statistics, the web address is shadowstats.com. I'll return after these words with more with John Williams.

This is RLA Radio. I'm Dennis Tubbergen, your host. I am joined today by John Williams. John is an economist; his website is Shadow Government Statistics. I follow his work. I'd encourage you to do the same. Shadowstats.com is the website.

John, you mentioned in the last segment, and I thought this was interesting, that the Fed increasing interest rates really isn't going to solve the inflation problem, because we do not have an economy that is overheating. We have actually the opposite. Well let me just ask you a question. Where do you think, what's your forecast? Where does inflation ultimately go from here?

**John Williams:**

Well, it depends to a certain extent on both the Fed and the federal government. It's not just the Fed that's triggering inflation. The federal government's continuing to increase its debt, which is, and its deficit overall that has been helping to fuel the inflation. I think the inflation's going to get a lot worse. What you've seen, you go back the last couple of months, we had two things happen here, or let me look at one very specific thing.

If you look at the headline numbers out of Uncle Sam, headline CPI peaked in June at 9.1. It drops to 8.5 July, 8.3 in August, 8.2 in September. It sounds like it's coming down, not so. The reason that dropped was that the President ordered some release of petroleum reserves, which reduced gasoline prices, and he wanted to get a quick shift in the aggregate CPI, make a major shift in gasoline prices and that will do it. That's what we saw here.

What happened with the drop in gasoline prices is that the third quarter inflation was lower. Well, of course the third quarter inflation, the same one that's used for the cost-of-living adjustments next year. I'm not saying they were manipulating the CPI like the government did back in the early 80s, but it looks like maybe there are some changes made here that help lower it. I think you're going to see that bouncing back up in the quarter ahead. They can't keep reducing petroleum reserves.

Without the Fed taking meaningful action here to reduce it, I think you're going to get up to 10% up, probably by the end of the year, year over year CPI, and very easily accelerating beyond that. It gets to a point where you start to see some talk of hyperinflation. That's a risk. I can’t tell you for sure it’s going to happen, but it's the type of thing that I think it’s a real risk. Given the way the Fed is handling the economy right now, you could have, we're certainly in a hyper, we're an inflationary economic downturn, depression and it could become a hyper-inflationary downturn or depression.

The type of thing that can save you there, from what I would look at, is holding physical gold and silver. I know gold and silver prices are depressed right now, amazingly, against the inflation picture. I'm highly suspect of what's happening there. I have a high degree of confidence that somebody's playing games with precious metals to try and encourage investments elsewhere. The federal government never liked to see high gold prices because they're not doing their job. When you get inflation like this, this is not inflation that's going to go away, it's going to get worse. You have the long-term inflation head shelter of the physical precious metals. I would look to physically hold coins and silver coins, and gold coins, coins from the standpoint that if we get into a hyperinflation, which I believe is a risk, you may be using those to barter for goods.

**Dennis Tubbergen:**

John, if I can interrupt, you say hyperinflation and depression, those are both very scary terms to our listeners. If you were to handicap this, what's the probability of such an outcome in your view? Is it highly probable? Is it an outside possibility? What does John Williams think the probability is?

**John Williams:**

Well, it obviously depends on things, how things break here. As things stand right now, I put it about 40% for a depression like economic downturn. In terms of accompanying inflation, I've looked for the inflation to be higher than you'd expect in that type of circumstance and in the 30% range for hyperinflation.

**Dennis Tubbergen:**

Wow. This is not a small possibility. John, do you see that ultimately this hyperinflation will be a worldwide phenomenon? How do you think it affects currencies?

**John Williams:**

Well, given the way people are handling their economies and money supplies right now, it's a fair shot of that going global. The US is probably the greatest risk here, in terms of its overall impact on the global economy, and the way the government and Fed seem to be handling things. I'd watch the US. Again, the hedge I would look at is the physical precious metals. I think that's one reason they're being depressed.

If you get into hyper circumstance, if you get into a point where you actually need to, we have a currency that collapses and there've been examples of that, nothing of the scope of the United States in modern years, but look at Zimbabwe, or even Weimar Republic, I guess almost a century ago. You look at how people survived it, and it was basically that's through hard assets and not hanging onto their depreciating cash much.

**Dennis Tubbergen:**

John, in the time we have left, what, in your view, is the relationship between an ongoing federal budget deficit and hyperinflation? To what extent do these big deficits contribute to hyperinflation potentially?

**John Williams:**

Well, the bigger the ... They're not hyper inflationary yet, but again, you're looking at ... Inflation becomes self-feeding and that's, again, look what happened 42 years ago, 17% inflation. They redefined inflation. You still have that inflation there. That's where my numbers are. If you look at my, my inflation numbers are not, they're not hyper inflationary, but they're a lot closer, and people would be thinking of it as being a lot closer if they saw those numbers. You get up towards 20% and people are going to be worrying about it. I think we have the chance of seeing that headline in the next year or so.

**Dennis Tubbergen:**

Wow, that is scary. That is scary. John, when it comes to looking at the role that precious metals have played in past inflationary or hyper inflationary environments, can you talk a little bit? Will metals help people maintain their purchasing power? Do they gain in purchasing power? Historically, how have metals performed?

**John Williams:**

It preserves the purchasing power. Let me tell you, I've been learning this process as well, and I've been learning some from my own numbers. What I did with my alternate CPI measure that calculates the CPI the way it was before the government changed it in 1982. Let me say, that was when there's a big change in the CPI. Before that, it was fairly consistent. I think it was a fair CPI estimate before they started changing it. What I did in estimating what it would be had they not made the changes, and I've given you the current numbers on it, I thought I would look at plots of year-to-year change, and things like that in comparison. What I did was said was we'll just plot the price of gold against my index and against the consumer price index.

Well, my index and the consumer price index are the same before 1982, minus the CPI, but just restated for what happened in the changes after 1982 and after. When I plotted them together, I was shocked. I didn't have to change the scale. Pure coincidence, but if you look at the current headline CPI, they had the base year, used to just have a single base year. Now, I think it's 1982, 1984 equals 100 average there. My index and the government's index are on the same basis. You go back before, where it's 100, and where we've got the same numbers going back in time. You go back to 1971, when Nixon floated the dollar, and the price indices averaged around 79 at that point. The price of gold averaged about 79, then too. The price is pure coincidence.

Plotting them going forward, what I found was that when you get past 82, 1982, gold follows my index, not the government's. The government's just falls off. Mine goes almost exponential. Now that's not perfect, but it's ... I'll be posting this in the next week or two, that shows the plot. It's very close over time. Sometimes the gold leads, usually the gold leads my index, but there's also an overlap and they're roughly the same order of magnitude.

Based on my price index, gold should have been over $2000 at the end of last year. We're not there now, but we'll see where it goes. Over time, gold and inflation have held together, so it preserves purchasing power, but it's thin, and it's over the millennia. If you buy a loaf for bread in ancient Roman, I loaf of bread here today, you use the same amount of gold. It's a store of wealth. Again, in a hyperinflation, bad inflation circumstance, the store of wealth is a good thing to have.

**Dennis Tubbergen:**

Well, John, the clock says we're going to have to leave it there. My guest today has been Mr. John Williams. Check out his website at shadowstats.com. John, always a pleasure talking with you. Thanks for joining us and giving us an update. We'd love to have you back down the road.

**John Williams:**

Thank you, Dennis. I appreciate you having me and I'd be happy to be with you anytime.

**Dennis Tubbergen:**

Appreciate that, as due to the listeners. We will return after these words.