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RADIO PROGRAM
Expert Interview Series

Guest Expert: John Williams

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Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. I am very pleased to have back on the program today Mr. John Williams. John has to be the hardest working economist that I think I interview. His website is Shadow Government Statistics. You can find his work at www.shadowstats.com, that's shadowstats.com. There is a lot of free information there, but John's newsletter is one that I read as soon as I get it and I'd encourage you to check that out as well. So John, welcome back to the program.

John Williams:

Thank you for having me, Dennis.

Dennis Tubbergen:

So John, the last time you were on the program, which has been about four months ago or so, you were forecasting that the United States would be moving into a hyper-inflationary environment. So, has anything transpired in the last four months to alter your opinion or have you just become more convicted in your opinion?

John Williams:

Well, I think we're still on the road to hyperinflation and in combination with that, an economic collapse. We had a terrible economic collapse, a direct result of the pandemic driven shutdown in the second quarter. And you had a 5% contraction in the headline GDP in the first quarter. And then you're down an order of magnitude, a 32% second quarter, and then you bounced back 31% in the third quarter, but when you drop 30%, or in this case with the first quarter decline as well, but if you drop 30%, then rally back 30%, you're not even, because you're growing off a much lower level than you were at before.

John Williams:

And right now, if the fourth quarter, which is not looking too good at the moment, if the fourth quarter were to bring you back to par with where you were before the pandemic, you'd have to see annualized quarterly growth of, this is adjusted for inflation, of about 15%, which aside from the extraordinary bounce back in the third quarter, if you were just clobbered there with a shutdown and then you had some bounce off bottom in the biggest quarterly decline, and then the biggest quarterly gain ever seen, those are extraordinarily unusual circumstances. But you still need something that would, has rarely been seen to get us, even by the end of the year, that's not going to happen.

John Williams:

I think you'll see, in fact, the economy is going to slow very markedly in the fourth quarter. We just had the last week or so, for example, we had an estimate on October employment numbers and unemployment. What you saw there was that the headline jobs, the payroll employment as they refer to it, had been improving some, but it was still down year to year by six percentage points from where it had been, again, that's the year before. But that's an extraordinarily sharp year-to-year decline. Again, we're seeing all sorts of wild historic numbers because of the extreme volatility here, but where that decline had been narrowing, it leveled off with the November numbers, October and November were both down year to year 6%. And what that's showing you is that we're seeing a stall on the economic recovery.

John Williams:

That's got a number of factors behind it. There's some blame given by a supposed intensification of the COVID cases, but with all the good news that you've had in terms of vaccines and new treatments, and that the markets are responding, boy, we're going to get back to normal in the year ahead. There's a little problem there. And that is that the collapse and what we've suffered and where we still are, has done very severe structural damage to the broad economy, and to the population and broad segments of the population in general. You have locally, a number of places that have closed down for good. I mean, that's a common experience, that terrible psychological disruption to the communities and people, and irrespective of whose administration we see at the end of January, there's got to be more stimulus to help the economy move along.

John Williams:

And I'm talking exceptional fiscal stimulus, government spending, the way they did it at the onset of the pandemic, as well as you're going to have continued monetary stimulus from the fed. They say they're going to keep doing that at extraordinary levels. And until such time as they see inflation starting to pick up and going above 2% as they measure it, they're trying to create inflation. They're going to succeed. Right now, if you look at the money supply, at the narrowest measure at one, which is basically cash and money in people's checking accounts, just this last month was up 51% year over year. That's a record. I'd never seen anything.

Dennis Tubbergen:

Unbelievable.

John Williams:

And very strange things happening there as well, because in the last week, you saw an extraordinary surge in M1 with money flowing out of the MM2, which are the savings accounts and such, into M1. People going to cash. And the last time you saw anything of that magnitude, it was the time of the terrorist attacks, 9/11 back in 2001. Something's happening here. People are going to cash. They're having problems, and it seems to be breaking wide open. So I think you're going to see some very unusual things happening in the next couple of months, but one factor, as signaled by what you're saying with the employment numbers, is that the headline economic activity is going to slow. It's going to take longer to recover. And the government stimulus as we saw last year, and you only had one package, but that was enough to push the total federal debt to a level against the GDP that's never been seen before. Well above GDP, worse than we saw in World War II.

John Williams:

And the higher the level of the debt gets relative to the GDP, it means that the lower the ability of the GDP to generate enough cash to pay it off. And that's where you tend to get that debt downgrades. We did have one couple of years back. A cautionary note from Fitch, I guess it was S&P that downgraded initially and Fitch made some noises end of last year, but that was all before what's at here. You don't have the ability to narrow the deficit much, if at all, at this point. We're effectively spending beyond control, but it's a devil's choice. You needed to keep the economy up, but it also becomes highly inflationary, creating if you're just spending money, but you're not. You're not offsetting it by taking money out of the population with taxes. The federal reserve is creating money at a pace that has, again, never been seen before. And you put those two factors together, it will generate an inflation for you.

John Williams:

Now, with that, you'll tend to see higher gold prices. We've had some gold prices hit record highs earlier in the year, and you've got all sorts of people playing games with gold, but I look at holding physical gold as the ultimate head sheer in terms of preserving the purchasing power of the US dollar. It'll go up and down particularly as people play games in these unusual markets, but over time, it will preserve the purchasing power of your dollar denominated wealth.

Dennis Tubbergen:

John, can I jump in there just a minute? Because you said something I want to expand on, because it's really a big issue I think. You're forecasting we're going to see economic decline, or I think the word you used was collapse. At

the same time, the fed is going to continue to be basically creating money. The government is going to be spending a lot of money. That whole situation, as much as stimulus is needed, doesn't that just accelerate the point at which we get hyperinflation? And if you agree with that, when are our listeners going to start to really notice this?

John Williams:

Well, you'll have a pretty good sense. You'll start to see items disappearing from the shelves and all of a sudden, sharp spike in prices. I used to import a chainsaw from west Germany, it was a family business. And when I was a kid, I went over and worked at the factory there and got to know a lot of the people there and both young and old, and people who had lived through or their parents had lived through the hyperinflation in the Weimar Republic. And it was some of the stories there were quite remarkable. The rate of inflation was so great that if you went into a restaurant, you'd negotiate and pay for your meal ahead of time, because it would cost you more after the meal. You could buy an expensive bottle of good wine and drink that. And in the morning, the empty a glass bottle was worth more than the fine bottle of wine with the wine the night before.

John Williams:

I mean, it gives you a sense of how rapidly it goes, but when the hyperinflation first hit, the shelves got cleaned out, and we had a little bit of that happening here, but we've got the excess money coming in. And at the same time, you've got unusual demand circumstances and tightened up supply circumstances. I mean, look, for example, at the price of lumber. There, you're seeing very high rates of inflation, 8, 9% year to year. It's not hyperinflation, but it's a direct result of part of what's beginning to unfold here. And where I look first to see, I mean, you'll see signs of it in different areas. Meat is another area where we've had some distortions, but the problem here is that there's the excess money, and where you should see the first indication, believe it or not, is in the price of gold. What I've found over time, and I measure inflation the way they used to before the government started to gimmick it. I don't actually measure it, but I adjust the government numbers for what they've taken out of inflation.

John Williams:

You go back to the Nixon era, when Nixon took us off the gold standard. At that point, the dollar and gold were basically tied together and inflation and gold tended to move, or the price of gold tended to move together. Things were reasonably stable. When we abandoned the gold backing of the dollar, we started to see a pickup in inflation. And by the early 1980s, inflation was picking up in a way that no one had really seen before in today's

government. And they were getting a little nervous. And what they wanted to do was to reduce the headline inflation. They weren't working to bring inflation under control, but they decided to change the way inflation was reported. So they changed the reporting methodologies and started knocking meaningful, not just off the annual inflation.

John Williams:

For example, first big thing they did was they recast the way they estimated housing cost for individuals in the CPI. It used to include, among other factors, the cost of buying a new house or a new home, and what they did was they took that out as a major component of the inflation number. They replaced it with what they made up and created and they called a homeowner's equivalent rent. The government would determine what an average homeowner would pay himself to rent his house from himself. So the rent would be the monthly outlay. And the inflation would be based on what the government estimated the homeowner would raise the rent on himself month to month so that it was all gimmicked and guessed at and modeled, but that the effect was, with that one change, they knocked 1.4 percentage point off the annual inflation rate in the CPI year after year after year, that's cumulative.

John Williams:

And you put together all the changes they've made and they're all sorts of gimmicks that have been used. It's up around a little over seven percentage points that you have to add that back in to what they're reporting. And the funny thing is that if you do that and then restate the CPI so it was never changed, the movement there basically matches the movement in the price of gold. Only, the price of gold tends to lead it. And where the amount of gold needed to buy a loaf of bread in ancient Rome, that same amount of gold would buy a loaf of bread today in the United States. That's held constant over time. Store of wealth used to be money. It still is money, and it's limited generally in its supply, which keeps it relatively honest. So people who have been investing in gold and look at gold as an investment tend to anticipate the inflation. And when that happens, they start buying it more. That's where we saw some spike in gold as the various stimulus packages were put in place earlier in the year.

Dennis Tubbergen:

John, I want to pick this up in the next segment. The clock tells me here that we are running out of time. My guest today is Mr. John Williams. His website is Shadow Government Statistics. The web address is shadowstats.com. I'll continue my conversation with John after these words, stay with us.

Dennis Tubbergen:

Welcome back to RLA Radio. I'm Dennis Tubbergen. I'm chatting today with Mr. John Williams. John's website is Shadow Government Statistics. You can find it at shadowstats.com. I would encourage you to check it out. John, in the last segment, you were talking a bit about what the real inflation rate is and some of the adjustments, or gimmicky adjustments, maybe I should say, that have been made to the way the inflation rate is actually calculated. So based upon your work, what would you estimate that the real inflation rate is? And then where ultimately might you see it going?

John Williams:

Well, right now, we're looking at something in the range of 9% year to year. The government's reporting something around 2% year to year. That's been up and down a little bit with the volatility in gasoline prices, the oil price earlier this year did a lot to knock down the rising costs of gasoline and such. And that's actually been something of a containment on the consumer price index. And that basically has stabilized and you'll start to see that notching higher. As it gets higher, it'll get to a point that people will notice and say, "Boy, the prices are really rising." And you get into hyperinflation, again, it's a circumstance where the increases in the price are so rapid that, again, you want to buy something, you buy it in the morning instead of the afternoon, because the price will have changed.

John Williams:

The protection there is to have your assets and something that will maintain value against inflation. Precious metals, gold, and silver do that. There are other factors as well, or other elements. For example, in talking to the people who lived through the environmental Republican inflation in Germany, back in the twenties, you had one thing that you could barter with. In fact, you go to a barter economy. Aside from well, gold and silver, were canned goods. People can always eat. They need food, they'll eat food, and that'll tend to retain its value. I know one fellow whose father traded canned goods around and decided one day he's going to eat the things, canned beans or something, opened the can of beans. And it had gone bad. So really didn't retain its value. But as far as anyone was concerned in that can, it still was a consumable product.

John Williams:

But gold and silver are viewed as basic commodities, as stores of wealth. And if you get into a real hyperinflation, the gold is of course, a lot more expensive than silver right now. But they should still retain their basic ratio. So if you're looking to hold some physical gold and silver, and I would suggest physical gold and silver, you probably need to look at something

along the lines of coins that are minted by a sovereign mint, so that someone looks at a gold coin and they'll say, "Yep, okay. I recognize that." And it's got a given weight and a given fineness. You don't have to have it assayed. A gold coin would be too much to trade against a can of beans, but having some silver coins, like the old silver quarters and dimes that people still trade bags of, that makes for a good small change, and again, and hard asset to silver. And that's where you could trade silver coins for canned goods or something like that.

Dennis Tubbergen:

John, do you have a favorite between gold and silver? Do you have an outlook that you favor one over another?

John Williams:

In terms of the basic...

Dennis Tubbergen:

Just to preserve wealth.

John Williams:

Basic preservation of wealth, and you're talking, they're generally pretty big money that your best bet is physical gold. It's much more compact. It's transportable. And again, I would look to hold it as opposed to have it electronically. I mean, we're talking timeshare that can get very unusual politically in terms of economic stability. And it's the type of thing where you want to have the physical possession of those assets. You don't want to trust it to some institution that might go bankrupt and you might not be able to get it.

Dennis Tubbergen:

So, John, let me ask this. When you just look at the broad economy and you're forecasting an economic decline or collapse, how much of that coming economic decline would you attribute to existing economic conditions? And to what extent would you attribute this coming decline to the lockdowns in response to the virus?

John Williams:

Well, we had a, before the virus, we actually were turning down. In fact, if you look at the numbers, the federal reserve was tightening liquidity into early 2019. The economy had started to fall off. In the fourth quarter of, I think it was 2019, real retail sales contracted quarter to quarter. Now that's the Christmas shopping season. This was well before. And you saw all sorts of slowdown in different industries. The government said, and that only

plays with the inflation numbers, but with that, they also play with the gross domestic product numbers. So the economy's not quite as strong as advertised. The way that works is that economic growth usually is adjusted for inflation, net of the growth, and the inflation rate, so that when you look at the gross domestic product, which is the broadest measure they put out on a quarterly basis for the economic activity, they work out in what they call nominal terms before they adjust for inflation, and then they adjusted for inflation.

John Williams:

Now, if you use too low and inflation rate to deflate, which is what they do, that tends to boost economic growth, and it actually boosted by about 2% per year, which is about what the GDP has averaged. Now contended since the Great Recession, we really have not had much actual growth in the economy and where you can see some elements of that, consider for example, the way they define an economic recovery is that you regain and then go above the level of economic activity before it started to turn down. Industrial production is just barely above that prior high, but the manufacturing sector never has recovered above its pre-Great Recession peak. The same thing's true of the construction industry.

John Williams:

There are a number of things that are not quite right in the headline numbers, and it was a difficult time. It was beginning to slow down again coming into the virus problem. But the slowdown was being triggered by the fed, because it was trying to raise rates, to trying to reverse a lot of what it had done to bail out the banking system when the banking system collapsed in 2007, 2008. And I'll put the blame of that right with the fed, because they could have restructured the banking system, let it fail, and restructured them to put the money into the economy. They didn't. So we've really had sort of a stagnant economy coming into the virus. Now, the Coronavirus, no question, knocked it down. We're down 30%, basically annualized rate of growth. Down at least 10% more than that year to year. So that was all tied to the shutdown from the virus. Now it's coming back.

John Williams:

And if everything went well, you might be you getting up reasonably close to where you were by the end of next year or the year after. But I think you're going to see things starting to turn down again for a variety of reasons, not the least of which is the damage that has been done by this. And as the inflation starts to take off, that will also keep, keep in mind that the inflation rate gets attracted from the nominal growth. And that'll actually tend to help feed the economic decline. It's a difficult circumstance, but what you saw in

Germany was a hyper-inflationary economic collapse. That had all sorts of causes tied to the end of World War I, and how things were settled there with France.

John Williams:

And what we have going here is a hyperinflation that will be driven by the money creation by the fed and the government spending. And that was a problem the Germans had, they didn't have any backing to their currency. But they needed to spend money and they did, so that you'll see that inflation picking up. You've already got serious damage done, and t's going to accelerate. The other factors that could have put us into an economic collapse, but the virus here was a proximal trigger and it's after effects and the way we're handling it, and the way the central bank will be handling it will exacerbate it and push us further down the road into economic trouble.

Dennis Tubbergen:

Well, our guest today has been Mr. John Williams. John, the clock tells me we're going to have to leave it there. Check out John's website at shadowstats.com. John, always appreciate your insights and perspectives and all your hard work, and appreciate you being on the show today and would love to have you back down the road.

John Williams:

That'd be my pleasure. Again, thank you, Dennis, for having me.

Dennis Tubbergen:

We will return after these words.