

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

**COMMENTARY NUMBER 806**  
**April Retail Sales and the Producer Price Index**  
**May 13, 2016**

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**Intensifying Economic Downturn Continues**  
**Nominal Retail Sales Jump Reflected Rising Inflation and a**  
**One-Time, Unsustainable Monthly Boost in Auto Sales**

**April 2016 PPI Goods Inflation Rose by 0.19%,**  
**PPI Services Profit Margins Rose by 0.09%, Leaving**  
**Aggregate Final-Demand PPI Inflation Up by 0.18%**

**April's Monthly Construction Inflation of 0.79%**  
**Will Take a Toll on Real Construction Spending**

**Presidential Politics Affecting Consumer Sentiment?**

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*PLEASE NOTE: The next regular Commentary, scheduled for Tuesday, May 17th will cover the April Consumer Price Index, Real Retail Sales, Industrial Production and Housing Starts.*

*Best wishes to all — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Politics and Surging Consumer Sentiment.** This morning's headline reporting of the early-May 2016 Consumer Sentiment reading from the University of Michigan showed an unusually sharp, month-to-month gain of 7.6%. Such likely is an aberration, but there is another possibility.

There is no apparent, usual reason for such a surge in sentiment, based on relative economic activity or near-term stock market performance. Accordingly, the less-significant early-May detail likely will be muted in its more-meaningful final reporting. Discussed in the *Consumer Conditions* section, however, if the full-May Consumer Sentiment reading holds, and if the Consumer Confidence Survey (Conference Board) should jump in tandem for May, the improved consumer outlook might be reflecting the expectations of an economically-frustrated electorate sensing a shift away from the ineffective-politics-as-usual (see also *Opening Comments* of [Commentary No. 805](#)).

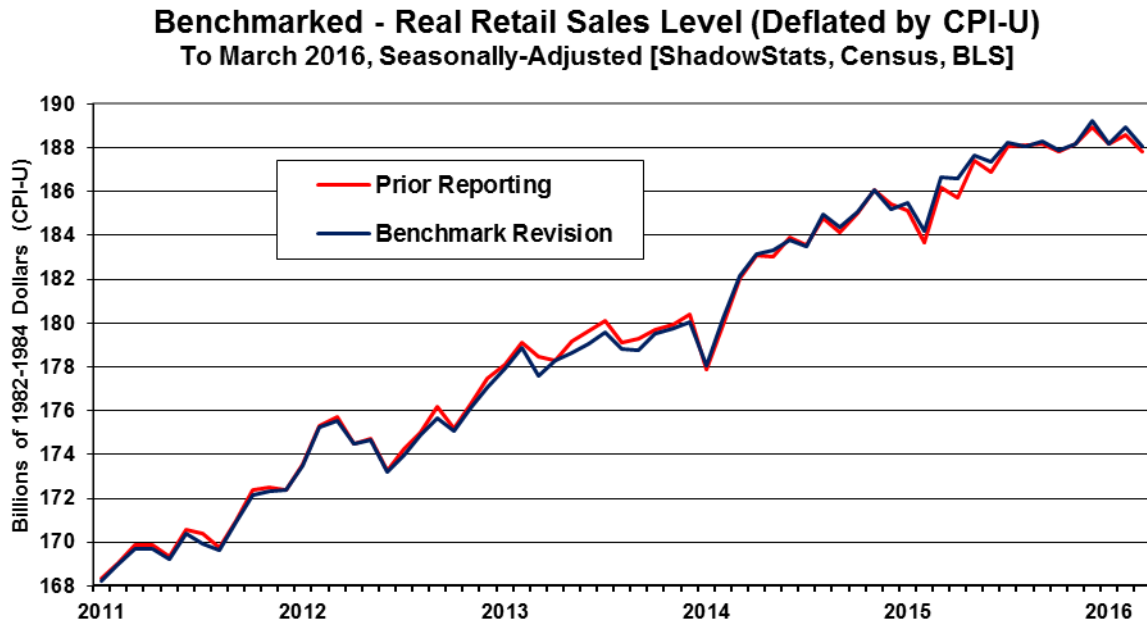
If anything, current economic conditions are deteriorating, not improving. In between the Sentiment survey periods, the only significant shift in the general environment, which could affect Consumer Sentiment, was the change from political candidate Donald Trump facing a highly contested Republican Convention to his becoming the presumptive Republican nominee. Further, Bernie Sanders's campaign has kept rolling along, challenging establishment-favorite Hillary Clinton. If the shifts in the political arena turn out to be factors in boosting near-term Consumer Confidence and Sentiment, establishment politicians could be reconsidering their positions as Election Day nears.

**Economic Activity Continues in a Deepening Downturn.** Headline nominal retail sales jumped by an unusually sharp 1.26% in April 2016. That reflected an unsustainable surge in irregularly-volatile monthly automobile sales. That nominal gain also reflected a jump in headline monthly price increases. Although the inflation-adjusted real retail sales for April will reflect a month-to-month gain, year-to-year change in the real series should hold below 2.0%, still generating an intense recession signal.

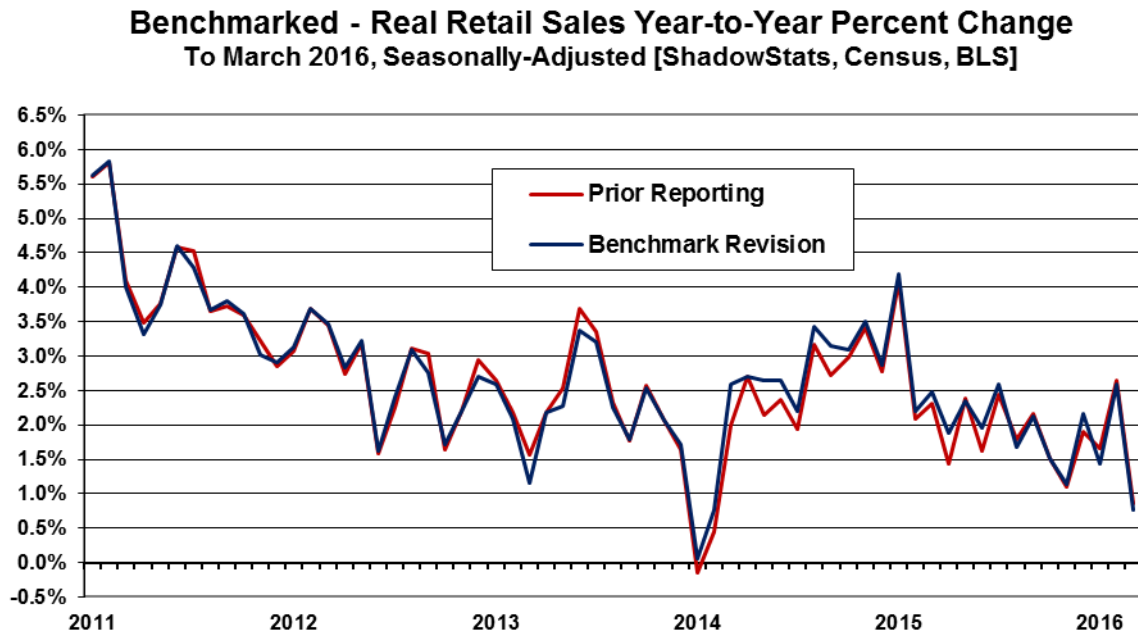
Also reflecting inflation pressures, construction costs rose by 0.8% in the April 2016 PPI. That should hit April construction spending hard, with sharply negative implication for second-quarter construction activity. Separately, the production, housing reports and related revisions in the week ahead should confirm a much more somber tone in terms of current economic activity, than was seen today in either the headline retail or Consumer Sentiment reporting.

The headline reporting of April 2016 retail sales was in the context of the annual benchmark revisions (April 29th) through March 2016. Discussed in [Commentary No. 804](#), and as reflected in accompanying *Graphs 1* and *2* from that missive, the revisions generally were minimal, but to the downside through 2013, where more complete and accurate information was available. The revisions were minimally to the upside, thereafter, working with existing upside biases and assumptions, 2014 to date. Unlike the benchmark production revisions ([Commentary No. 796-A](#)), or last year's benchmarking ([Commentary No. 716](#)), the recent retail revisions should have minimal impact on the GDP benchmarking.

**Graph 1: Benchmark-Revised Real Retail Sales, Level**



**Graph 2: Benchmark-Revised Real Retail Sales, Year-to-Year Percent Change**



**Today's Commentary (May 13th).** The balance of these *Opening Comments* provides summary coverage of the nominal (not-adjusted-for-inflation) April Retail Sales and the April Producer Price Index (PPI), along with a full update to Consumer Conditions.

The most recent *Hyperinflation Outlook Summary* is found in [Commentary No. 783](#), with [Commentary No. 799](#) and [No. 777 Year-End Special Commentary](#) as background to the currently unfolding financial circumstances. These documents will be updated shortly in a new *Special Report*.

The *Week Ahead* section previews next week's reporting of the April Consumer Price Index (CPI), real Retail Sales, Industrial Production and Housing Starts.

**Nominal Retail Sales—April 2016—Boosted by Monthly Auto Sales Volatility and Rising Inflation, Headline Sales Growth Was Not Sustainable.** In the context of the annual benchmark revisions (April 29th), discussed in [Commentary No. 804](#) and briefly reviewed in the opening paragraphs of these *Opening Comments* with *Graphs 1* and *2*, headline nominal retail sales—before consideration of the impact of inflation—rose by a strong 1.26% month-to-month. That followed a revised March 2016 monthly decline of 0.33% (-0.33%). The April 2016 gain was the strongest monthly showing since a February 2014 gain of 1.30%, which followed a January 2014 monthly decline of 0.87% (-0.87%).

Still suffering from the spending constraints on a liquidity-starved consumer (see the following *Consumer Conditions* section), broad economic activity remains in a deepening downturn. Nonetheless, the boost in April nominal retail sales activity was spiked by irregularly surging automobile sales (up by 3.2% for the month, a non-sustainable pace). Nominal activity also was boosted by rising inflation in food and gasoline. Yet, sales at general merchandise stores were unchanged month-to-month, with department store sales up by 0.3%, despite all the news reports of recent weeks suggesting more-negative circumstances among major retailers. There likely are seasonal-factor distortions involved here, which should be revised in the next two months, or a year from now.

Year-to-year, aggregate nominal retail sales growth in April 2016 was 3.00%. While that was above the 1.67% of March 2016, it was below the 3.62% annual gain in February 2016. The difference is that while the bloated headline monthly gain in April sales likely still will remain positive, net of inflation, annual real sales growth should be below 2.0%, the traditional demarcation and ongoing signal of a recession.

**Nominal (Not-Adjusted-for-Inflation) Retail Sales—April 2016.** In the context of the April 29th annual benchmark revisions through March 2016 and today's upside revision to March 2016 activity, headline nominal Retail Sales in April 2016 showed a statistically-significant, seasonally-adjusted monthly gain of 1.26%. Net of prior-period revisions, April sales rose by 1.33%. March nominal retail sales also showed a statistically-significant, revised month-to-month decline of 0.33% (-0.33%), with February sales up by a revised 0.28%.

April 2016 nominal year-to-year change in Retail Sales was a statistically-significant increase of 3.00%, versus revised annual gains of 1.67% in March 2016 and 3.62% in February 2016.

All the following annualized quarterly growth rates are before adjustment for inflation. The post-benchmark revisions here are due solely to the inconsistent seasonal-adjustment shifts both in the current and year-ago data, due to the inconsistent reporting of concurrent seasonal-factor distortions based on April 2016 reporting, not due to the development of new information, as discussed in the *Seasonal-Factor Distortions* section of the *Reporting Detail*.

The pace of annualized nominal retail sales declined in first-quarter 2015 by a narrower contraction of 2.80% (-2.80%), still the worst quarter-to-quarter showing since the economic collapse. Second-quarter 2015 retail sales growth revised lower to 6.16%. Third-quarter 2015 retail sales growth revised higher to 3.68%, and fourth-quarter 2015 annualized growth was unrevised at 1.27%.

Moving into the arena of regular monthly revisions to the two most-recent months (February and March 2016), annualized quarterly nominal retail sales growth in first-quarter 2016 revised to a shallower contraction of 0.24% (-0.24%). Based on only one month's reporting (April 2016), second-quarter 2016 is on track for an annualized quarterly nominal growth rate of 4.59%.

Again, all these numbers are before any consideration for the effects of inflation. The initial monthly and annual inflation-adjusted real growth rates for April 2016 Retail Sales, and the initial trend for annualized second-quarter 2016 real change in retail sales, will be published with the May 17th release of the April 2016 CPI-U and accompanying *Commentary No. 807* (see the *Week Ahead*). That said, adjusted for realistic inflation (see [Commentary No. 796](#), [Commentary No. 804](#) and [No. 777 Year-End Special Commentary](#)), real retail sales and the broad economy never truly recovered from the economic collapse into 2008 and 2009.

**Consumer Conditions Inhibit Sustainable Economic Growth.** This review of consumer liquidity conditions fully updates the *Consumer Conditions* section of [Commentary No. 796](#) of April 1st and the intervening weekly revisions; it also supplements the more-general [No. 777 Year-End Special Commentary](#), which covers household-income variance in the latest annual 2014 income numbers.

Underlying fundamentals to consumer economic activity, such as liquidity, have been severely impaired in the last decade or so, driving economic activity into collapse and preventing meaningful or sustainable economic rebound, recovery or ongoing growth. The level of and growth in sustainable real income, and the ability and willingness of the consumer to take on new debt remain at the root of the liquidity issues.

Generally, the higher and stronger those measures are, the healthier is consumer spending. Most measures of consumer liquidity and attitudes are off their lows, and one—real monthly median household income—actually has been spiked to pre-recession levels by the temporary collapse in gasoline prices, as reflected in the deflating and otherwise underestimated headline CPI-U inflation. Yet, these underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. Never recovering in the post-Panic era, limited growth in household income and credit, and a still generally, faltering consumer outlook, have eviscerated and continue to impair broad, domestic U.S. business activity, which feeds off the financial health and liquidity of consumers.

Such has driven the housing-market collapse and ongoing stagnation in consumer-related real estate and construction activity, as well as constraining both nominal and real retail sales activity and the related, personal-consumption-expenditures and residential-construction categories of the Gross Domestic Product (GDP). Together, those sectors account for more than 70% of total GDP activity in the United States.

Now, with the economy never fully recovering from the collapse into 2009, consumers again are pulling back on consumption, as evidenced by a renewed slowdown of broad economic activity. There has been

no economic recovery, and there remains no chance of meaningful, broad economic growth, without a meaningful, fundamental upturn in consumer- and banking-liquidity conditions.

The relative distribution of income among the general population—income variance—also is a significant indicator of the health of an economy as well as the attendant financial markets. At its current extremes, the imbalances are consistent with continued economic disruption and significant, negative financial-market turmoil (again, see the general discussion in [No. 777 Year-End Special Commentary](#)).

***Household Income Measures Signal Broad-Based Economic Difficulties.*** Discussed and graphed in [Commentary No. 752](#) are the Census Bureau's most-recent (2014) annual measures of household income. Unexpected weakness in some of the headline annual income data, though partially masked by changes in survey questions, signaled increasing liquidity difficulties for U.S. households. The headline 2015 detail is planned for release in September 2016.

Shown first in *Graph 3* is the latest monthly real median household income detail through March 2016, as reported April 28th by [www.SentierResearch.com](http://www.SentierResearch.com). The headline reporting appears to have stalled in statistically-insignificant flutterings around its near-term January 2016 peak.

This measure of real monthly median household income generally can be considered as a monthly version of the annual detail shown in *Graph 4*, but the monthly specifics are generated from separate surveying and questioning by the Census Bureau.

On a monthly basis, when headline GDP purportedly started its solid economic recovery in mid-2009, the monthly household income number nonetheless plunged to new lows. Generally, the income series had been in low-level stagnation, with the recent uptrend in the monthly index boosted specifically by collapsing gasoline prices and the related, negative headline consumer inflation. The index reached pre-recession levels in the December 2015 reporting, but it remains minimally below the pre-recession highs for both the formal 2007 and 2001 recessions. It should continue to top out or turn down anew as consumer inflation rebounds in the months ahead.

Where lower gasoline prices have provided some minimal liquidity relief to the consumer, indications are that any effective extra cash generally has been used to pay down unsustainable debt or other obligations, not to fuel new consumption. Again, the effects of lower gasoline prices are beginning to reverse as prices climb anew.

***Differences in the Monthly versus Annual Median Household Income.*** That general pattern of relative historical weakness also has been seen in the headline reporting of the annual Census numbers, shown in *Graph 4*, with the latest 2014 real annual median household income at a ten-year low. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels. Still, the monthly and annual series remain broadly consistent, although based on separate questions within the monthly Consumer Population Series (CPS), as conducted by the Census Bureau.

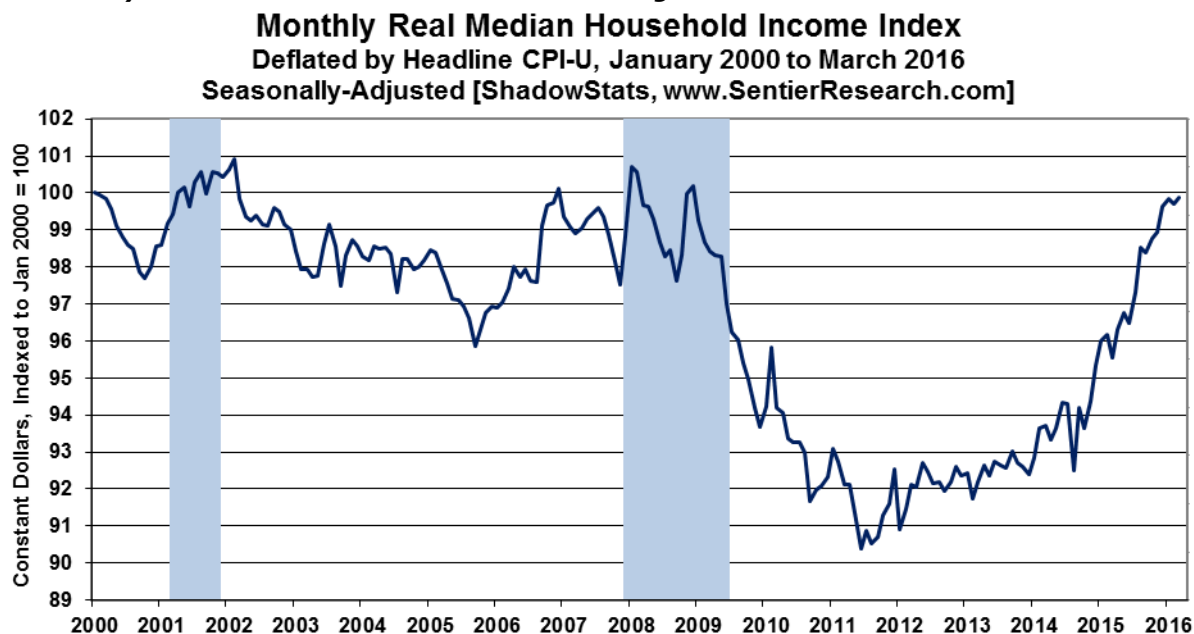
Where Sentier uses monthly questions surveying current annual household income, the headline annual Census detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income.

Again, discussed in [Commentary No. 752](#), the Census Bureau changed its annual income questionnaire for 2014, with the effect of boosting income levels reported in 2014. The details on changes between 2013

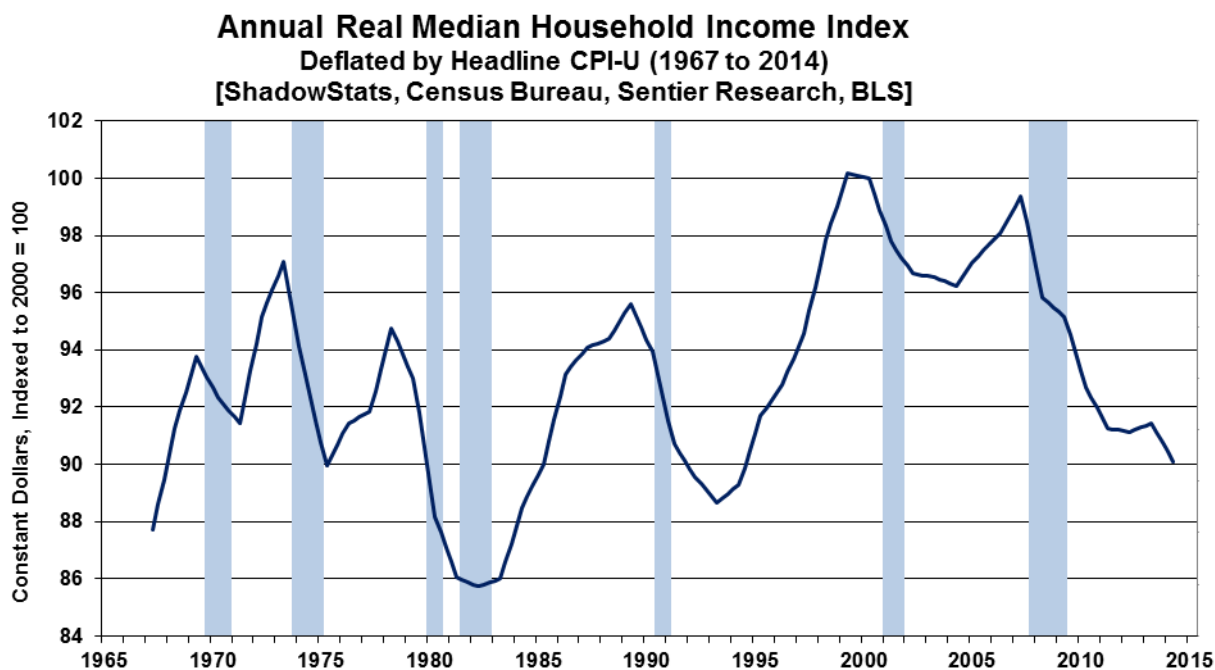


and 2014, however, also were available on a consistent and comparable basis, and the consistent aggregate annual percentage change of median household income in 2014, versus 2013, was applied to the otherwise consistent historical series to generate *Graph 4*.

**Graph 3: Monthly Real Median U.S. Household Income through March 2016**



**Graph 4: Annual Real Median U.S. Household Income through 2014**



In historical perspective from *Graph 4*, 2011, 2012 and 2013 income levels were below levels seen in the late-1960s and early-1970s, with the 2014 income level below the readings through most of the 1970s, aside from being at a ten-year low. Such indicates the long-term nature of the evolution of the major structural changes squeezing consumer liquidity and impairing the current economy (see related discussions in [2014 Hyperinflation Report—The End Game Begins](#) and particularly [2014 Hyperinflation Report—Great Economic Tumble](#)).

**Consumer Confidence, Sentiment and Credit.** The weakening April 2016 reading for the Conference Board's Consumer-Confidence measure (released April 26th) and the spike in the early-May 2016 reading for the University of Michigan's Consumer-Sentiment measure (released today, May 13th) are reflected in *Graphs 5 to 7*.

The sentiment and confidence indications are accompanied by the latest readings on fourth-quarter 2015 household-sector credit-market debt outstanding (*Graph 8*) and March 2016 consumer credit outstanding (*Graph 9*).

For purposes of showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs 5 to 7* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index (*Graph 5*) declined in April 2016 after a gain in March 2016, with the three-month moving average down by 6.5% (-6.5%) from its peak in February 2015.

The University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph 6*) soared in the early-May 2016 reading (released today), having declined month-to-month in each of the prior four months straight, with its three month-moving average, as of early-May, still down by 3.9% (-3.9%) from its February 2015 peak.

Both series also continued to hold off near-term peaks, as smoothed for six-month moving-average readings (*Graph 7*), with the measures through April 2016 and early-May 2016, down respectively by 3.7% for Confidence and by 3.0% for Sentiment from their June 2015 highs.

The sharp jump in the early-May 2016 Sentiment reading is without much statistical significance, based on extremely limited telephone surveying (the total month's surveying purportedly is based on roughly 500 phone calls, where the early-month detail is based on something well shy of 200 calls). The headline detail likely will be muted in subsequent reporting detail.

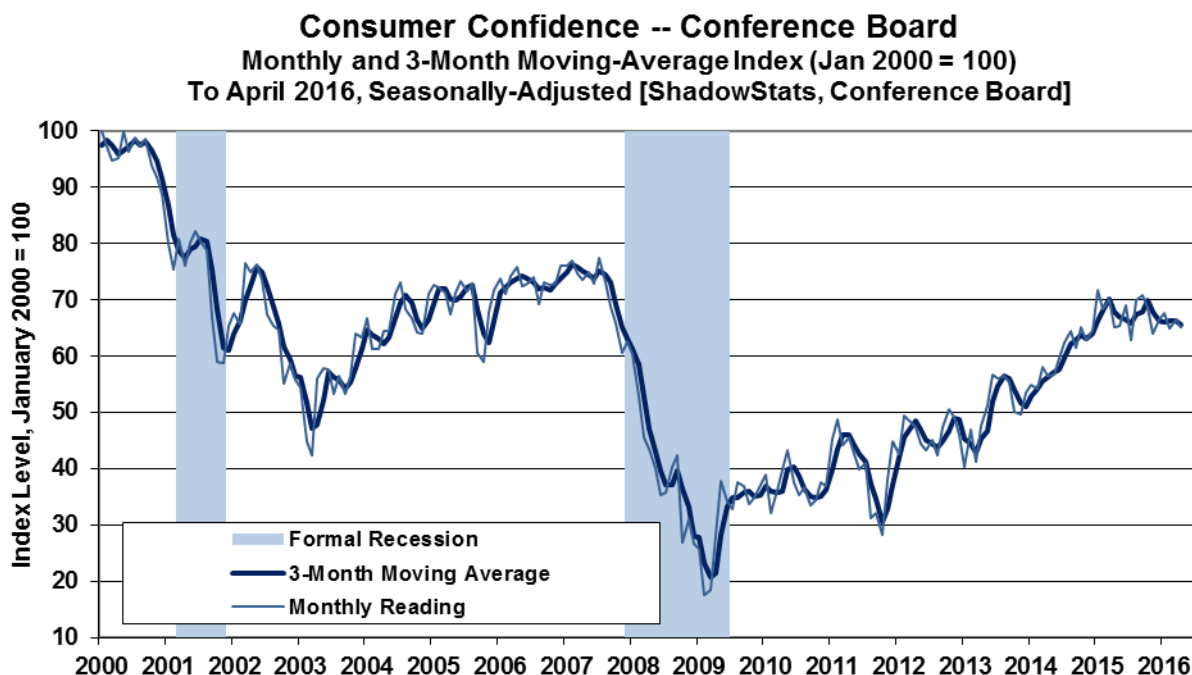
If, however, the Sentiment holds and Confidence should jump in tandem, the improved reading could reflect Donald Trump's becoming the presumptive Republican nominee, with expectations beginning to shift away from politics as usual (see today's *Opening Comments* and those of [Commentary No. 805](#)). If so, establishment politicians likely are going to be reassessing their positions. The economy still is deteriorating, not improving, irrespective of today's headline jump in nominal retail sales.

Otherwise, the Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in [Commentary No. 764](#)), and often are highly volatile month-to-month, as a result. With increasingly-negative, headline financial and economic reporting and developments at hand

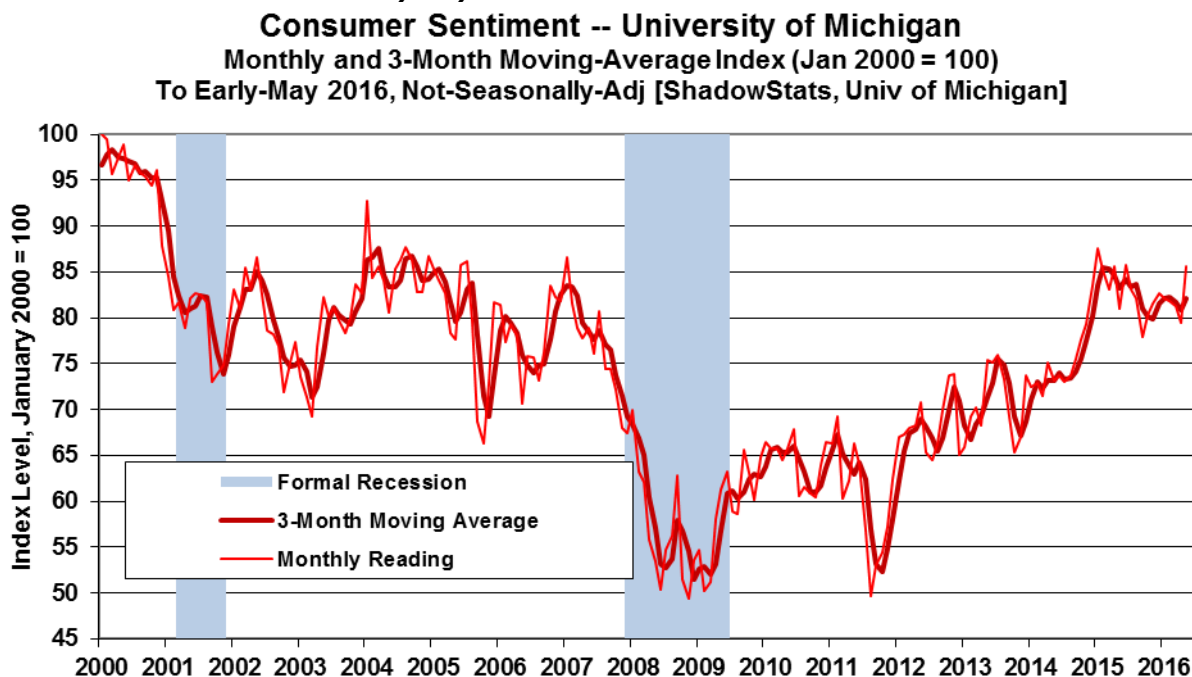


and ahead, successive negative hits to both the confidence and sentiment readings remain likely to continue in the months ahead.

**Graph 5: Consumer Confidence to April 2016**



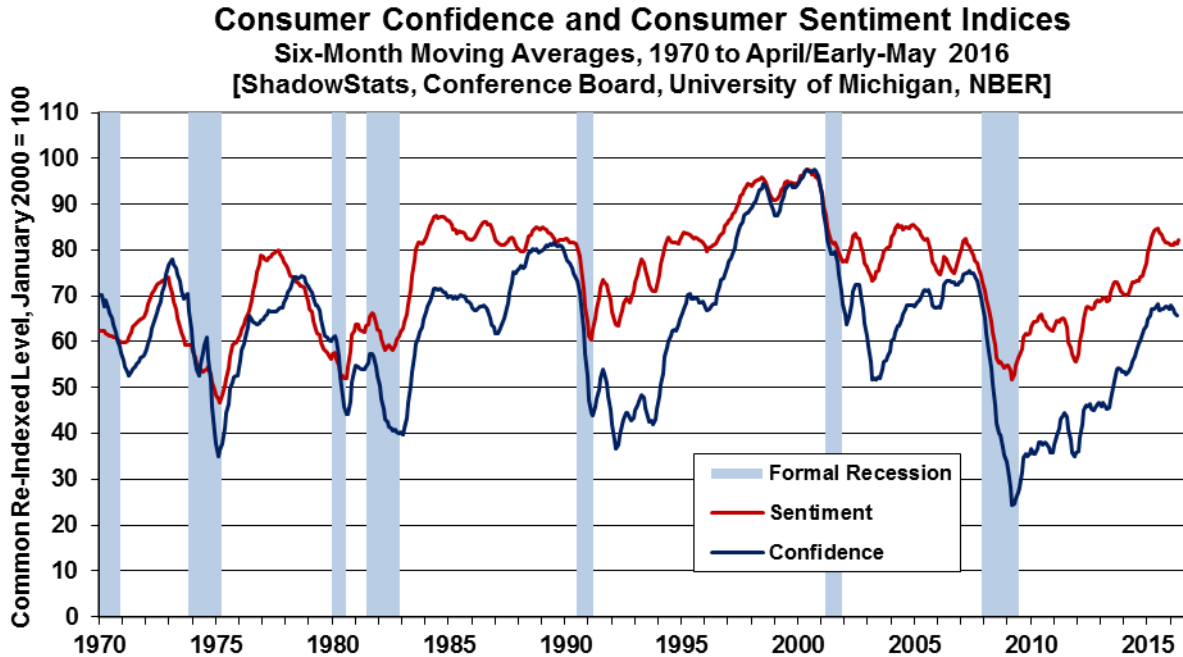
**Graph 6: Consumer Sentiment to Early-May 2016**



Smoothed for irregular, short-term volatility, the two series remain at levels seen typically in recessions. Suggested in *Graph 7*—plotted for the last 45 years—the latest readings of Confidence and Sentiment

generally have not recovered levels preceding most formal recessions of the last four decades. Broadly, the consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth seen in 2014 and as indicated for second-and third-quarter 2015 GDP growth.

**Graph 7: Comparative Confidence and Sentiment (6-Month Moving Averages) since 1970**



The final two graphs in this section address consumer borrowing. Debt expansion can help make up for a shortfall in income growth. Shown in *Graph 8 of Household Sector, Real Credit Market Debt Outstanding*, household debt declined in the period following the Panic of 2008, and it has not recovered, based on the Federal Reserve's flow-of-funds accounting for fourth-quarter 2015 (scheduled for an update through first-quarter 2016 on June 9th).

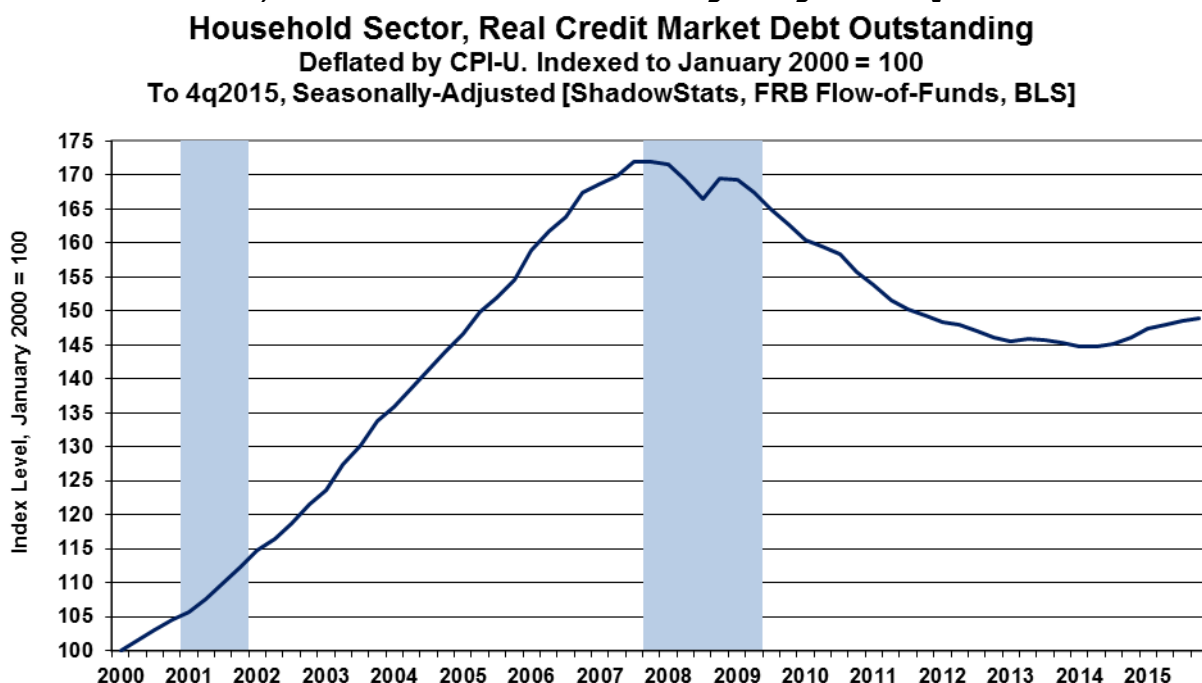
The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce.

The slight upturn seen in the series through 2015, as also seen in the patterns of the real monthly median household income survey, was due partially to gasoline-price-driven, negative CPI inflation, which continues to impact the system (see discussion on *Median Household Income*). Fourth-quarter activity also reflected surging student loans, as shown in the *Graph 9*.

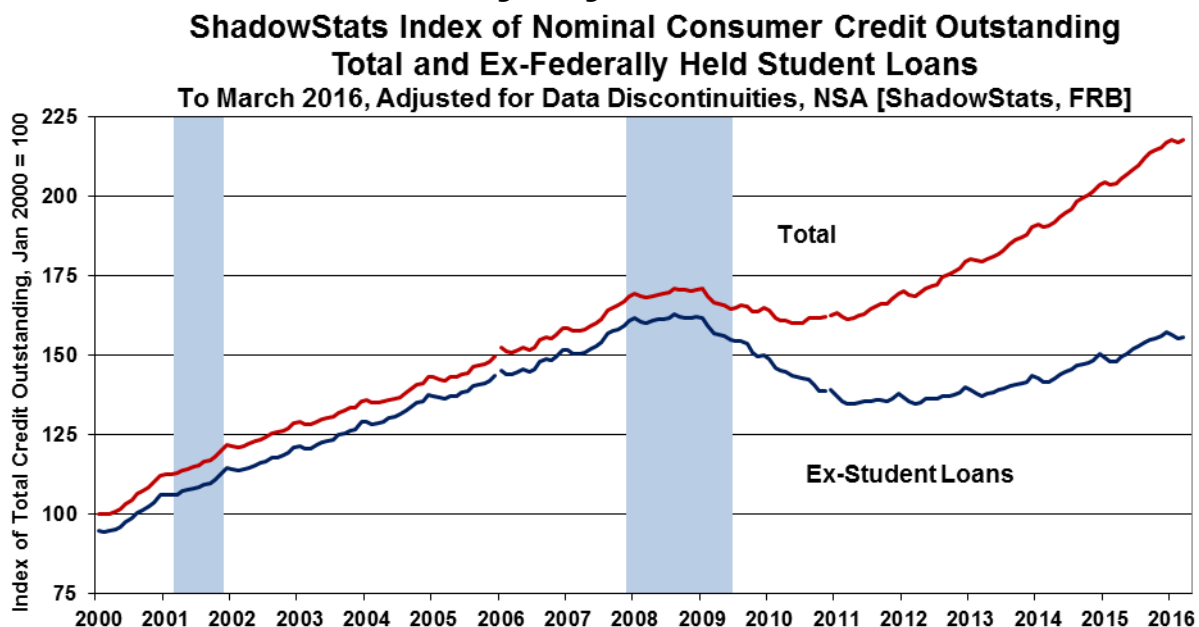
Shown through March 2016 reporting (updated May 6th), *Graph 9* of monthly Consumer Credit Outstanding is a subcomponent of *Graph 8* on real Household Sector debt, but *Graph 9* is not adjusted for inflation. Post-2008 Panic, outstanding consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption or housing growth. Although in slow uptrend, the nominal level of Consumer Credit Outstanding (ex-student loans) has not recovered since the onset of the recession. These disaggregated data are available

and plotted only on a not-seasonally-adjusted basis, with March 2016 levels still reflecting something of an unadjusted dip.

**Graph 8: Household Sector, Real Credit Market Debt Outstanding through Fourth-Quarter 2015**



**Graph 9: Nominal Consumer Credit Outstanding through March 2016**



**Producer Price Index (PPI)—April 2016—Goods Inflation Increased by 0.19%; Construction Inflation Rose by 0.79%; Profit Margins in the Services Sector Gained 0.09%; Aggregate PPI Rose by 0.18%.** The aggregate monthly increase of 0.18% in April 2016 PPI was dominated by goods inflation. Headline wholesale goods inflation rose by 0.19% in the month of April 2016, with rising energy prices and “core” inflation (net of food and energy) dominating the goods index, along with a partially-offsetting negative contribution from food.

A partial offset to the gain in the pace of goods inflation was a relatively weaker gain of 0.09% in the more-heavily-weighted and counter-intuitive services sector. The net increase there resulted from the “other” services sector (portfolio management), which more than offset declines in trade services and transportation and warehousing services. Rising gasoline prices also began to widen profit margins in the “trade” area, with offsetting declines in airline passenger services.

Despite its light weighting in the PPI, construction inflation showed a meaningful, seasonally-adjusted monthly gain in headline inflation of 0.79%, also contributing to the aggregate number.

The conceptual differences between goods inflation and services profit margins do not blend well and are not merged easily or meaningfully in the PPI. The dual measures are more meaningfully viewed independently than as the hybrid measure of the headline Producer Price Index Final Demand, as discussed in the *Reporting Detail* (see *Inflation that Is More Theoretical than Real World?*).

**April 2016 Headline PPI Detail.** The seasonally-adjusted, month-to-month, headline Producer Price Index (PPI) Final Demand inflation for April 2016 was a gain 0.18%, versus a decline of 0.09% (-0.09%) in March. The impact of seasonal adjustments on the headline PPI reporting was broadly positive in April, where the unadjusted monthly April measure gained 0.09%. On a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year PPI Final Demand inflation in April 2016 was up by 0.09%, having been down by 0.09% (-0.09%) in March 2016.

For the three major subcategories of April 2016 Final Demand PPI, headline monthly Goods inflation rose by 0.19%, Services inflation gained 0.09%, and Construction inflation rose by 0.79%.

Extended PPI detail is found in the *Reporting Detail*, including seasonal-factor distortions and weightings of the various index components, along with supplemental reporting on PPI for new orders for durable goods.

**Final Demand Goods.** Running somewhat in parallel with the old Finished Goods PPI series, headline month-to-month Final Demand Goods inflation in April 2016 rose by 0.19%, the same monthly gain as in March. Not-seasonally-adjusted, year-to-year goods inflation in April 2016 declined by 1.93% (-1.93%), having declined by 2.56% (-2.56%) in March 2016. Major components of the April 2016 Final Demand Goods:

- “Foods” inflation fell month-to-month in April 2016 by 0.35% (-0.35%), having declined by 0.94% (-0.94%) in March. Unadjusted and year-to-year, annual April 2016 foods inflation declined by 2.04% (-2.04%), versus a drop of 2.46% (-2.46%) in March 2016.
- “Energy” inflation rose by 0.23% in April 2016, having gained 1.78% in March. Unadjusted and year-to-year, the April 2016 annual contraction in energy prices narrowed to 11.97% (-11.97%), versus a March 2016 annual decline of 13.84% (-13.84%).

- “Less foods and energy” (“Core” goods) monthly inflation rose by 0.27% in April 2016, having gained 0.09% in March. Unadjusted and year-to-year, April 2016 was up by 0.64%, having increased by 0.27% in March 2016.

Final Demand Services. Headline monthly Final Demand Services inflation rose by 0.09% in April 2016, having declined by 0.18% (-0.18%) in March. Year-to-year, unadjusted April 2016 services inflation slowed to 1.00%, from 1.18% in March 2016. Major components for April 2016 Final Demand Services inflation:

- “Services less trade, transportation and warehousing” inflation, or the “Other” category, rose by 0.27% in April 2016, having declined by 0.09% (-0.09%) in March. Unadjusted and year-to-year, April 2016 “other” services inflation was 1.47%, versus 1.66% in March 2016.
- “Transportation and warehousing” inflation fell month-to-month by 0.35% (-0.35%) in April 2016, having declined by 0.26% (-0.26%) in March. Unadjusted and year-to-year, April 2016 transportation inflation fell by 2.33% (-2.33%), little changed from the year-to-year decline of 2.32% (-2.32%) in March 2016.
- “Trade” inflation declined for the month of April 2016 by 0.09% (-0.09%), versus a decline of 0.53% (-0.53%) in March. Unadjusted and year-to-year, April 2016 trade inflation rose by 0.99%, having gained 1.17% in March 2016.

Final Demand Construction. Although a fully self-contained subsection of the Final Demand PPI, Final Demand Construction inflation receives no formal headline coverage. Nonetheless, headline numbers are published, and month-to-month construction inflation rose by 0.79% in April 2016, having gained 0.09% in March. On an unadjusted basis, year-to-year construction inflation rose by 1.87% in April 2016, versus an annual gain of 1.07% in March 2016.

- “Construction for private capital investment” headline monthly inflation rose by 0.88% in April 2016, having been “unchanged” at 0.00% in March. Unadjusted and year-to-year, April 2016 private construction inflation was up by 1.88%, versus a year-to-year change 0.89% in March 2016.
- “Construction for government” inflation gained month-to-month by 0.62% in April 2016, having gain 0.09% in March. Unadjusted and year-to-year, April 2016 government construction inflation was 1.78%, up from 1.43% in March 2016.

***[The Reporting Detail section includes significant additional information related to April 2016 Retail Sales and PPI Reporting.]***

## REPORTING DETAIL

### NOMINAL RETAIL SALES—April 2016

**Boosted by Monthly Auto Sales Volatility and Rising Inflation, Headline April 2016 Nominal Retail Sales Growth Was Not Sustainable.** In the context of the annual benchmark revisions (April 29th), discussed in [Commentary No. 804](#) and briefly in the *Opening Comments* with *Graphs 1* and *2*, headline nominal retail sales—before consideration of the impact of inflation—rose by a strong 1.26% month-to-month. That followed a revised monthly decline of 0.33% (-0.33%) in March 2016. The April gain was the strongest monthly showing since a February 2014 gain of 1.30%, following a monthly contraction of 0.87% (-0.87%) in January 2014.

Spiked by irregularly surging automobile sales (up by 3.2% for the month, a non-sustainable pace), nominal activity also was boosted by rising inflation in food and gasoline. Yet, sales at general merchandise stores were unchanged month-to-month, with department store sales up by 0.3%, despite all the news reports of recent weeks suggesting more-negative circumstances among the retailers. There likely are seasonal-factor distortions involved here, which should be revised in the next two months, or a year from now.

Year-to-year, aggregate nominal retail sales growth in April 2016 was 3.00%. While that was above the 1.67% of March 2016, it was below the 3.62% annual gain in February 2016. The difference is that while the bloated headline monthly gain in April sales likely still will remain positive, net of inflation, annual real sales growth should be below 2.0%, the traditional and ongoing signal of a recession.

**Structural Liquidity Issues Continue to Restrain Consumer Activity.** An extreme consumer-liquidity bind continues to constrain retail sales activity, as updated fully in today's *Opening Comments* and supplemental to the more-general discussion in [No. 777 Year-End Special Commentary](#). Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise. That circumstance—in the last eight-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity, 70% of which is dependent on personal spending.

**Nominal (Not-Adjusted-for-Inflation) Retail Sales—April 2016.** In the context of the April 29th annual benchmark revisions through March 2016 (again, see [Commentary No. 804](#) and the *Opening Comments*) and today's upside revision to March 2016 activity, the Census Bureau reported this morning (May 13th) that headline nominal Retail Sales rose by 1.3% in April 2016. At the second decimal point, April 2016 retail sales showed a statistically-significant, seasonally-adjusted monthly gain of 1.26% +/- 0.59% (this and all other confidence intervals are expressed at the 95% level). Net of prior-period revisions, April sales rose by 1.33%.

March 2016 nominal retail sales showed a statistically-significant, revised month-to-month decline of 0.33% (-0.33%) +/- 0.23% [previously benchmarked at down by 0.36% (-0.36%)]. As published initially before the April 29th benchmarking, headline March 2016 had shown a seasonally-adjusted monthly decline of 0.30% (-0.30%). February 2016 sales showed a revised monthly gain of 0.28% [previously



benchmarked at a 0.24% gain]. Pre-benchmarking, the second estimate of February 2016 had reflected a headline month-to-month gain of 0.03% [initially down by 0.15% (-0.15%)].

***Year-to-Year Annual Change.*** April 2016 nominal year-to-year change was a statistically-significant increase of 3.00% +/- 0.82%, versus a revised March 2016 annual gain of 1.67% [previously benchmarked at 1.64%]. As published initially before the April 29th benchmarking, headline March 2016 had shown a seasonally-adjusted annual gain of 1.75%. The revised annual gain for February 2016 was 3.62% [previously benchmarked at 3.58%]. Pre-benchmarking, the second estimate of February 2016 had reflected a headline year-to-year gain of 3.65% [initially up by 3.09%].

***Annualized Quarterly Changes.*** All the following growth rates are before adjustment for inflation. The post-benchmark revisions here reflect only the inconsistent seasonal-adjustment shifts both in the current and year-ago data. The revision to first-quarter 2015 to third-quarter 2015 annualized growth rates had nothing to do with better-quality historical detail, only with the use of concurrent seasonal-adjustment revisions that shifting headline sales activity, as discussed in the *Seasonal-Factor Distortions* section.

The pace of annualized nominal retail sales declined in first-quarter 2015 by a narrower contraction of 2.80% (-2.80%) [previously down by 2.87% (-2.87%), down by 3.91% (-3.91%) pre-benchmarking] still the worst quarter-to-quarter showing since the economic collapse.

Second-quarter 2015 retail sales growth revised lower to 6.16% [previously up by 6.37%, up by 6.18% pre-benchmarking]. Third-quarter 2015 retail sales growth revised higher to 3.68% [previously 3.55%, and versus 4.51% pre-benchmarking]. Fourth-quarter 2015 annualized growth was unrevised at 1.27% [1.19% pre-benchmarking].

Moving into the arena of regular monthly revisions to the two most-recent months (February and March 2016), annualized quarterly nominal retail sales growth in first-quarter 2016 revised to a shallower contraction of 0.24% (-0.24%) [previously down by 0.40% (-0.40%), and versus 0.54% (-0.54%) pre-benchmarking].

Based on only one month's reporting (April 2016), second-quarter 2016 is on track for an annualized quarterly nominal growth rate of 4.59%.

Again, all these numbers are before any consideration for the effects of inflation. The initial monthly and annual inflation-adjusted real growth rates for April 2016 Retail Sales, and the initial trend for annualized second-quarter 2016 real change in retail sales, will be published with the May 17th release of the April 2016 CPI-U and accompanying *Commentary No. 807*. That said, adjusted for realistic inflation (see [Commentary No. 796](#), [Commentary No. 804](#) and [No. 777 Year-End Special Commentary](#)), real retail sales and the broad economy never truly recovered from the economic collapse into 2008 and 2009.

***April 2016 Core Retail Sales, Net of Food and Gasoline.*** Reflecting an environment that should be seeing rising, seasonally-adjusted food prices and gasoline prices [an unadjusted April 2016 gain of 7.00% per the Department of Energy] in gasoline prices, seasonally-adjusted monthly grocery-store sales increased by 1.05% in April 2016, with gasoline-station sales up by 0.98% for the month.

Under normal conditions, the bulk of non-seasonal variability in food and gasoline sales is in pricing, instead of demand. “Core” retail sales—consistent with the Federal Reserve’s preference for ignoring food and energy prices when “core” inflation is lower than full inflation (or vice versa for some at the Fed trying to boost interest rates at the moment)—are estimated using two approaches:

Version I: April 2016 versus March 2016 seasonally-adjusted retail sales series—net of total grocery store and gasoline-station sales—reflected a monthly gain of 1.20%, versus the official headline aggregate sales gain of 1.26%.

Version II: April 2016 versus March 2016 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—reflected a month-to-month gain of 0.98%, versus the official headline aggregate sales increase of 1.26%.

***Real (Inflation-Adjusted) Retail Sales—April 2016.*** The monthly gain of 1.26% in nominal April 2016 retail sales was before accounting for inflation. The monthly change in the inflation-adjusted real Retail Sales for April awaits the related May 17th headline estimate of the April CPI-U consumer inflation.

Discussed in the *Week Ahead* section, the headline April CPI-U outlook is for roughly a 0.3% gain, perhaps higher, in headline monthly inflation, which would reduce the headline change in real sales by a parallel amount versus the headline nominal activity. Nonetheless, real sales likely will end up with a strong, headline monthly gain, and an initial indication for positive, real second-quarter 2016 growth, versus a virtually unchanged first-quarter 2016.

Annual CPI-U inflation in excess of one-percent, however, should knock down the headline real annual sales gain of 3.00% to below two-percent, continuing an intense signal of recession.

***Seasonal-Factor Distortions Reversed Minimally in Post-Benchmarked April 2016, Amidst Other Reporting Instabilities.*** Headline detail in this series is subject to a pattern of distorted revisions. These revisions are unique to the inconsistent reporting of the government’s concurrent-seasonal-factor-adjustment process, as seen regularly in recent and current reporting of retail sales, with the usual seasonal-factor games in play through the initial, pre-benchmarked March 2016 reporting, where the headline data reflected new seasonal-factor adjustments, but the purportedly comparable historical series did not. The effect in most months leading into the April 29th benchmark revision was to boost the immediate headline month’s initial reporting.

In this first post-benchmark reporting, however, the pattern reversed, reducing the seasonally-adjusted monthly growth rate by about 0.005% (-0.005%) from what might have been 1.261% to 1.256%, still at 1.26% of 1.3%, depending upon the number of decimal points used in the headline data.

Nonetheless, the only “comparable” headline historical details published with today’s headline April 2016 sales data were the sales levels for the prior two months of March 2016 and February 2016, and the year-ago months of April and March 2015. Revisions to the year-ago periods are tip-offs as to how the current, headline month’s seasonal factors have been altered from the benchmark revision.

In the April 2016 headline detail, the year-ago revisions simply were junk reporting, due solely to shifts in their seasonal adjustments that resulted from the unique calculations of the seasonal factors generated with the new headline detail. These revisions were not due to the availability of any new historical data

back in March or April 2015—availability of new data was adjusted for in the benchmarking—rather due to just the inconsistent shifts in the published versus unpublished seasonal adjustments. Discussed earlier, shifting patterns of relative quarterly growth in the first-, second- and third-quarter 2015 also were seen due solely to the “inconsistent” revisions to the adjusted March and April 2015 numbers.

Given Census Bureau reporting procedures, the headline detail is not comparable with most earlier reporting. As a result, current data can reflect growth shifts from earlier periods, without those specifics being published. The adjustment issues here are the same as with the employment and unemployment series. The principles and issues with the way the government reports economic series adjusted by concurrent seasonal factors were explored, in-depth, in [Commentary No. 695](#) and discussed in prior [Supplemental Commentary No. 784-A](#). The reporting fraud is not in the use of concurrent seasonal-factor adjustments *per se*, but rather in not publishing fully-consistent, historical data each month.

In headline reporting of the last year, the year-ago number most commonly was revised higher each month relative to the month before, with the effect—desired or otherwise—of boosting the seasonal adjustments for the current headline month, minimizing the reporting of headline monthly contractions or maximizing the headline gains. All this happens without the specifics as to where headline activity has been shifted month-to-month. Full detail is available internally to the Census Bureau, but the Bureau chooses not to publish the detail.

Beyond inconsistencies in the published, adjusted historical data, the stability of the seasonal-adjustment process (particularly the concurrent-seasonal-adjustment process) and sampling methods have been disrupted severely by the unprecedented depth and length of the current economic downturn in the post-World War II era, the period of modern economic reporting.

In theory, some of the longer-term issues were addressed, at least partially, in the annual benchmark revision of April 29th. The benchmarking put all the historical data on a one-time consistent basis, but only briefly, between the benchmarking of April 29th and today’s (May 13th) headline reporting of April 2016 retail sales. Again, today’s headline detail is comparable only with March and February 2016, and April and March 2015, but none of those months will be consistent or comparable with any other of the other just-benchmarked, seasonally-adjusted, historical retail sales detail.

## **PRODUCER PRICE INDEX—PPI (April 2016)**

**April 2016 PPI Goods Inflation Increased by 0.19%; Construction Inflation Rose by 0.79%; Profit Margins in the Dominant Services Sector Gained 0.09%; Aggregate PPI Rose by 0.18%.** The aggregate monthly increase of 0.18% in April 2016 PPI was dominated by goods inflation. Headline wholesale goods inflation rose by 0.19% in the month of April 2016, with rising energy prices and “core” inflation (net of food and energy) dominating the goods index, along with a partially-offsetting negative contribution from food.

A partial offset to the gain in the pace of goods inflation was a relatively weaker of gain of 0.09% in the more-heavily-weighted and counter-intuitive services sector. The net increase there resulted from the “other” services sector (portfolio management), which more than offset declines in trade services and transportation and warehousing services. Rising gasoline prices also began to widen profit margins in the “trade” area, with offsetting declines in airline passenger services.

Despite its light weighting in the PPI, construction inflation showed a meaningful, seasonally-adjusted monthly gain in headline inflation of 0.79%.

Discussed below, the conceptual differences between goods inflation and services profit margins do not blend well and are not merged easily or meaningfully in the PPI. The dual measures are more meaningful viewed independently than as the hybrid measure of the headline Producer Price Index Final Demand.

***Inflation that Is More Theoretical than Real World?*** *[This background text is as published previously.]* Effective with January 2014 reporting, a new Producer Price Index (PPI) replaced what had been the traditional headline monthly measure of wholesale inflation in Finished Goods (see [Commentary No. 591](#)). In the new headline monthly measure of wholesale Final Demand, Final Demand Goods basically is the old Finished Goods series, albeit expanded.

The new and otherwise dominant Final Demand Services sector largely reflects problematic and questionable surveying of intermediate or quasi-wholesale profit margins in the services area. To the extent that profit margins shrink in the services sector, one could argue that the resulting lowered estimation of inflation actually is a precursor to higher inflation, as firms subsequently would move to raise prices, in an effort to regain more-normal margins. In like manner, in the circumstance of “increased” margins—due to the lower cost of petroleum-related products not being passed along immediately to customers—competitive pressures to lower margins would tend to be reflected eventually in reduced retail prices (CPI). The oil-price versus margin gimmick works both way. In times of rapidly rising oil prices, it mutes the increase in Final Demand inflation, in times of rapidly declining oil prices; it tends to mute the decline in Final Demand inflation.

The current PPI series remains an interesting concept, but it appears limited as to its aggregate predictive ability versus general consumer inflation. Further, there is not enough history available on the new series (just six years of post-2008-panic data) to establish any meaningful relationship to general inflation or other economic or financial series.

***April 2016 Headline PPI Detail.*** The Bureau of Labor Statistics (BLS) reported this morning, May 13th, that the seasonally-adjusted, month-to-month, headline Producer Price Index (PPI) Final Demand inflation for April 2016 was a gain 0.18%, versus a decline of 0.09% (-0.09%) in March. The impact of seasonal adjustments on the headline PPI reporting was broadly positive in April, where the unadjusted monthly April measure gained 0.09%.

On a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year PPI Final Demand inflation in April 2016 was up by 0.09%, having been down by 0.09% (-0.09%) in March 2016.

For the three major subcategories of April 2016 Final Demand PPI, headline monthly Goods inflation rose by 0.19%, Services inflation gained 0.09%, and Construction inflation rose by 0.79%.

Final Demand Goods (Weighted at 33.60% of the Aggregate Index). Running somewhat in parallel with the old Finished Goods PPI series, headline month-to-month Final Demand Goods inflation in April 2016 rose by 0.19%, the same monthly gain as in March. There was negative impact on the aggregate headline April reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, April Final Demand Goods inflation rose by 0.38% for the month.

Unadjusted, year-to-year goods inflation in April 2016 declined by 1.93% (-1.93%), having declined by 2.56% (-2.56%) in March 2016.

Headline seasonally-adjusted monthly changes by major components of the April 2016 Final Demand Goods:

- “Foods” inflation (weighted at 5.56% of the total index) fell month-to-month in April 2016 by 0.35% (-0.35%), having declined by 0.94% (-0.94%) in March. Seasonal adjustments were a negative factor for the April monthly change, which was down by 0.09% (-0.09%) unadjusted. Unadjusted and year-to-year, annual April 2016 foods inflation declined by 2.04% (-2.04%), versus a drop of 2.46% (-2.46%) in March 2016.
- “Energy” inflation (weighted at 5.23% of the total index) rose by 0.23% in April 2016, having gained 1.78% in March, with the April reading hit again by seasonal adjustments. Unadjusted, monthly energy inflation rose by 1.05% in April. Unadjusted and year-to-year, the April 2016 annual contraction in energy prices narrowed to 11.97% (-11.97 %), versus a March 2016 annual decline of 13.84% (-13.84%).
- “Less foods and energy” (“Core” goods) monthly inflation (weighted at 22.81% of the total index) rose by 0.27% in April 2016, having gained 0.09% in March. Seasonal adjustments were neutral for monthly core inflation, with an unadjusted monthly gain of 0.27%. Unadjusted and year-to-year, April 2016 was up by 0.64%, having increased by 0.27% in March 2016.

Final Demand Services (Weighted at 64.32% of the Aggregate Index). Headline monthly Final Demand Services inflation rose by 0.09% in April 2016, having declined by 0.18% (-0.18%) in March. The overall seasonal-adjustment impact on headline April services inflation was positive, with an unadjusted monthly April reading of “unchanged” at 0.00%. Year-to-year, unadjusted April 2016 services inflation slowed to 1.00%, from 1.18% in March 2016.

The headline monthly changes by major component for April 2016 Final Demand Services inflation:

- “Services less trade, transportation and warehousing” inflation, or the “Other” category (weighted at 38.97% of the total index), rose by 0.27% in April 2016, having declined by 0.09% (-0.09%) in March. Seasonal-adjustment impact on the adjusted April detail was positive, where the unadjusted monthly reading had been a gain of 0.09%. Unadjusted and year-to-year, April 2016 “other” services inflation was 1.47%, versus 1.66% in March 2016.
- “Transportation and warehousing” inflation (weighted at 4.99% of the total index) fell month-to-month in April 2016 by 0.35% (-0.35%), having declined by 0.26% (-0.26%) in March. Seasonal adjustments had positive impact on the headline April number, where the unadjusted monthly reading had been a decline of 0.44% (-0.44%). Unadjusted and year-to-year, April 2016 transportation inflation fell by 2.33% (-2.33%), little changed from the year-to-year decline of 2.32% (-2.32%) in March 2016.
- “Trade” inflation (weighted at 20.36% of the total index) declined for the month of April 2016 by 0.09% (-0.09%), versus a decline of 0.53% (-0.53%) in March. Seasonal adjustments had a positive impact here, where unadjusted monthly inflation declined by 0.18% (-0.18%) in April. Unadjusted and year-to-year, April 2016 trade inflation rose by 0.99%, having gained 1.17% in March 2016.



Final Demand Construction (Weighted at 2.08% of the Aggregate Index). Although a fully self-contained subsection of the Final Demand PPI, Final Demand Construction inflation receives no formal headline coverage. Nonetheless, headline numbers are published, and month-to-month construction inflation rose by 0.79% in April 2016, having gained 0.09% in March. The impact of seasonal factors on the April reading was neutral, where the unadjusted monthly change also was a gain of 0.79%.

On an unadjusted basis, year-to-year construction inflation rose by 1.87% in April 2016, versus an annual gain of 1.07% in March 2016.

- “Construction for private capital investment” headline monthly inflation (weighted at 1.40% of the total index) rose by 0.88% in April 2016, having been “unchanged” at 0.00% in March. As usual, seasonal adjustments had neutral impact here, where the unadjusted April monthly inflation also was up by 0.88%. Unadjusted and year-to-year, April 2016 private construction inflation was up by 1.88%, versus a year-to-year change 0.89% in March 2016.
- “Construction for government” inflation (weighted at 0.68% of the total index) gained month-to-month by 0.62% in April 2016, having gain 0.09% in March. Seasonal adjustments had positive impact, where unadjusted monthly inflation showed a gain of 0.53% in April. Unadjusted and year-to-year, April 2016 government construction inflation was 1.78%, up from 1.43% in March 2016.

Discussed in [Commentary No. 804](#), ShadowStats uses the Final Demand Construction index for deflating headline activity in the monthly construction-spending series. The June 1st release of April 2016 U.S. Construction Spending will be covered in ShadowStats *Commentary No. 810* of June 3rd. The sharp jump here in headline construction spending likely will take a heavy toll on those April 2016 numbers.

***PPI-Inflation Impact on Pending Reporting of New Orders for Durable Goods.*** As to the upcoming reporting of April 2016 new orders for durable goods, monthly inflation (reported only on a not-seasonally-adjusted basis) for new orders for manufactured durable goods was up by 0.12%, having been unchanged at 0.00% in March and February. The decline in annual inflation, however, continued to narrow, to a contraction of 0.84% (-0.84%) in April 2016, versus annual declines of 1.14% (-1.14%) in March 2016, and 1.25% (-1.25%) in February 2016. April 2016 durable goods orders will be reported on May 26th and covered in ShadowStats *Commentary No. 808* of that date.



## WEEK AHEAD

**Economic Deterioration Should Intensify, Increasingly Pummeling the U.S. Dollar and Boosting Gold, Silver and Oil Prices.** Market expectations for business activity should deteriorate at an accelerating pace, amidst intensifying, negative headline economic reporting and Fed-policy waffling in the weeks and months ahead. The broad trend in weakening expectations for business activity, and in movement towards looming recession recognition, continues, as discussed in [Commentary No. 805](#), [Commentary No. 804](#), [Commentary No. 803](#), [Commentary No. 802](#), [Commentary No. 801](#), [Commentary No. 800](#), [Commentary No. 799](#), [Commentary No. 796](#) and in [No. 777 Year-End Special Commentary](#).

In response to perpetual non-recovery and an intensifying downtrend in underlying economic activity, negative market reactions have surfaced in trading of the U.S. dollar and in related financial markets, with upside pressures on gold, silver and oil prices, as seen in recent market activity and as discussed in [Commentary No. 799](#). These reactions reflect, at least in part, a solidifying sense of Federal Reserve impotence. Any further tightening by the Fed before the election is unlikely, and renewed quantitative easing could become a target of intensified market speculation as the deepening recession unfolds.

Increasingly-weak headline reporting of the regular monthly economic numbers should be accompanied by much worse-than-expected—negative—reporting for at least the next several quarters of GDP (and GDI and GNP). That includes high odds of an outright quarterly contraction for first-quarter 2016 GDP activity in the May 27th revision, as well as pending downside revisions to GDP history (including headline quarterly contractions in first-quarter 2015, fourth-quarter 2015 and first-quarter 2016, should it still be in positive territory) come the July 29th annual GDP benchmark revisions.

Consistent with the relatively neutral benchmark revisions to retail sales, and in line with recent downside revisions to industrial production and likely pending negative benchmark revisions to construction, durable goods orders and trade, expectations for the GDP benchmarking also should fall sharply in the weeks ahead. That GDP benchmarking now is the most-likely point at which the elements for a “formal” recession call will be in full play.

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Headline March 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation is on track to rise more sharply in April and May (see *Pending Releases*), and likely going forward, boosted by the weakening U.S. dollar environment, and a continued, related upturn in oil prices and other commodities. Fundamental reporting issues with the headline CPI also are discussed here: [Public Commentary on Inflation Measurement](#).

**Note on Reporting-Quality Issues and Systemic-Reporting Biases.** Significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended to understate actual inflation and to overstate actual economic activity, ongoing headline reporting issues are tied largely to systemic

distortions of monthly seasonal adjustments. Data instabilities—induced partially by the still-evolving economic turmoil of the last nine-to-eleven years—have been without precedent in the post-World War II era of modern-economic reporting. The severity and ongoing nature of the downturn provide particularly unstable headline economic results, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data). That has been discussed and explored in the labor-numbers related [Supplemental Commentary No. 784-A](#) and [Commentary No. 695](#).

Further, discussed in [Commentary No. 778](#), a heretofore unheard of spate of “processing errors” surfaced in recent surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). This is suggestive of deteriorating internal oversight and control of the U.S. government’s headline economic reporting. At the same time, it indicates an openness of the involved statistical agencies in revealing the reporting-quality issues.

Combined with ongoing allegations in the last year or two of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series (see [Commentary No. 669](#)). John Crudele of the *New York Post* continues his investigations in reporting irregularities: [Crudele Investigation](#).

#### ***PENDING RELEASES:***

**Consumer Price Index—CPI (April 2016).** The Bureau of Labor Statistics (BLS) will release the April 2016 CPI on Tuesday, May 17th. The headline April CPI-U should increase month-to-month by roughly 0.3%, or more, reflecting rebounding gasoline prices plus higher non-energy inflation. Reflecting a relatively stronger monthly increase in the seasonally-adjusted April CPI-U, unadjusted headline annual inflation in April 2016 likely will move back above 1.0%, having been at 0.85% in March 2016.

***Positive Inflation Impact from Rising Gasoline Prices.*** Average gasoline prices continued to increase in April 2016, up by 7.00% for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). Where BLS seasonal adjustments to gasoline prices in April traditionally are negative, they would reduce the unadjusted price gain, but leave it in positive territory. Adjusted gasoline prices should rise by enough to add a positive 0.17% to the headline CPI-U monthly change. Boosted as well by higher food and “core” (net of food and energy) inflation, a headline monthly CPI-U gain of 0.3%, or higher, is a reasonable expectation. The headline nominal retail sales increases in both grocery stores and in gasoline stations for April are suggestive of higher seasonally-adjusted consumer inflation than might be expected otherwise (see *April 2016 Core Retail Sales, Net of Food and Gasoline* in the Retail Sales section of the *Reporting Detail*).

***Annual Inflation Rate.*** Noted in [Commentary No. 799](#), year-to-year, CPI-U inflation would increase or decrease in April 2016 reporting, dependent on the seasonally-adjusted monthly change, versus the adjusted, headline gain of 0.14% in April 2015 CPI-U. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for April 2016, the difference in April’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the March 2016 annual inflation rate of

0.85%. For example, a seasonally-adjusted, headline monthly gain of 0.3%, which appears well within reason for the April 2016 CPI-U, would boost the annual CPI-U inflation rate for April 2016 to about 1.1%, plus-or-minus, depending on rounding.

***Real (Inflation-Adjusted) Retail Sales (April 2016).*** The nominal monthly gain of 1.26% in April 2016 Retail Sales was before accounting for inflation (see *Opening Comments* and *Reporting Detail*). The monthly change in inflation-adjusted real retail sales for April awaits the May 17th headline estimate of April 2016 CPI-U consumer inflation. With the headline CPI-U inflation likely to show a headline monthly gain of about 0.3%, the headline real retail sales would be reduced by a parallel amount versus the headline nominal gain.

Annual inflation should top 1.0%, reducing the headline nominal annual gain in April 2016 retail sales of 3.00% to below two-percent. Such would continue generating an intense, low-level annual real-retail sales growth signal of recession.

Constraining retail sales activity, the consumer remains in an extreme liquidity bind, as updated fully in the *Opening Comments*. Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise.

**Index of Industrial Production (April 2016).** In the context of massive April 1st downside benchmark revisions through February 2016 (see [Commentary No. 796-A](#)) and further downside revisions released along with March 2016 detail (see [Commentary No. 800](#)), the Federal Reserve Board will release its estimate of Industrial Production activity for April 2016 on Tuesday, May 17th, with coverage in *Commentary No. 807* of that date. Headline reporting likely will continue on the downside, both month-to-month and year-to-year, with continuing revisions to the last six months of data. Wherever consensus indications settle for relative monthly activity in April, expectations have been disappointed fairly consistently on the downside in the last year or so of activity. Accordingly, headline reporting and revisions remain a good bet to offer negative surprises versus consensus forecasts, despite the recent downside historical revisions.

**Residential Construction—Housing Starts (April 2016).** The Census Bureau will release April 2016 residential construction detail on Tuesday, May 17th, along with annual revisions to the series. In line with common-reporting experience of recent years, monthly results are likely to be unstable and not statistically meaningful, holding in a general pattern of down-trending stagnation. While consensus expectations are likely to be on the upside, as usual, they also remain well shy of statistical significance.

Annual revisions likely will show some downside adjustment, along with volatile seasonal-factor shifting.

Irrespective of the generally meaningless headline detail, the broad pattern of housing starts should remain consistent with the low-level, stagnant activity, seen in the series at present, where March 2016 activity remained down by about 52% (-52%) from the pre-recession high of the series. Such is particularly evident with the detail viewed in the context of a six-month moving average. Separate from the benchmarking, this series also is subject to regular and extremely-large, prior-period revisions.

Discussed in [Commentary No. 660](#) on the August 2014 version of this most-unstable of major monthly economic series, the monthly headline detail here simply is worthless. The series best is viewed in terms of a six-month moving average. Again, not only is month-to-month reporting volatility frequently extreme, but also those headline monthly growth rates rarely come close to being statistically significant.

Continuing to constrain spending, the circumstances surrounding the ongoing the extreme liquidity bind besetting consumers have been updated fully in the *Opening Comments*. Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including residential real estate.

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