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

COMMENTARY NUMBER 812
May 2016 Nominal Retail Sales

June 14, 2016

Statistically-Insignificant, and Due Largely to Rising Inflation,
May Nominal Retail Sales Gained 0.45%

Inflation-Adjusted Real Retail Sales Likely Will Be Flat for the Month, with
Real Annual Sales Growth Still Generating an Intense Recession Signal

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PLEASE NOTE: The next regular Commentary, *scheduled for tomorrow, Wednesday, June 15th, will cover May 2016 Industrial Production and the Producer Price Index (PPI), followed by subsequent* Commentaries *on June 16th covering the May Consumer Price Index (CPI) and real Retail Sales, and on June 17th covering May Housing Starts. Due to travel, those daily postings likely will be late-day, possibly overnight.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Retail Sales Gain Likely Was Close to Nil After Inflation Adjustment. Today's (June 14th) brief missive covers the first of the major economic releases due out this week. Discussed in prior *General Commentary No. 811*, key monthly May 2016 data should tend to show deteriorating headline economic conditions. While the headline nominal retail sales monthly growth of 0.45% came in above consensus forecasts of 0.3%, along with minimal upside prior-period revisions, the monthly increase still was due largely to inflation. With headline May CPI-U likely to show a monthly gain in the vicinity of 0.3% to 0.4%, inflation-adjusted real monthly retail sales could be unchanged, likely no more than 0.1%, with annual real growth falling back well below 2.0%, again generating an intense, ongoing-recession signal. Those details will follow in *Commentary No. 814*, subsequent to the release of the May CPI-U inflation detail on June 16th (see *Week Ahead*).

Today's *Commentary* (June 14th). The summary of the May 2016 nominal Retail Sales report is covered in the following *Reporting Detail* section. With this particular series, and the lack of graphics before the inflation-adjusted real numbers are published in *Commentary No. 814* of June 16th, the brief detail in the *Executive Summary* largely would have been the same as the more-comprehensive *Reporting Detail*.

The most-recent *Hyperinflation Outlook Summary* is found in *Commentary No. 783*, with prior *General Commentary No. 811*, *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*, when first half-2016 economic detail is in place.

The *Week and Month Ahead* section updates the *Pending Releases* for the week ahead, including the May 2016 PPI and CPI, May Industrial Production and Housing Starts.

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REPORTING DETAIL

NOMINAL RETAIL SALES—May 2016

Headline May 2016 Nominal Retail Sales Growth Primarily Reflected Rising Inflation. Before consideration of the impact of inflation—headline nominal Retail Sales rose by 0.45% month-to-month for May. That followed a revised monthly gain of 1.27% [previously 1.26%] in April 2016. Indeed, the May gain was in the context of minimal prior–period revisions. Nominal annual growth slowed to 2.55% in May 2016, from an unrevised 3.00% in April. Net of inflation, annual growth slowed to well below the 2.0% recession-signal level.

Structural Liquidity Issues Continue to Restrain Consumer Activity**.** An extreme consumer-liquidity bind continues to constrain retail sales activity, as updated fully in prior *General Commentary No. 811*, which was supplemental to the more-general discussion in *No. 777 Year-End Special Commentary*. 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 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—May**.** In the context of minimal upside revisions to April and March 2016 activity, the Census Bureau reported this morning (June 14th) that headline nominal Retail Sales rose by 0.5% in May 2016. At the second decimal point, May 2016 Retail Sales showed a statistically-insignificant, seasonally-adjusted monthly gain of 0.45% +/- 0.59% (this and all other confidence intervals are expressed at the 95% level). Net of prior-period revisions, May sales rose by 0.49%.

April 2016 nominal retail sales showed a statistically-significant, revised month-to-month gain of 1.27% +/- 0.23% [previously up by 1.26%], March activity declined by a revised 0.33% (-0.33%) [previously down by 0.33% (-0.33%)].

Year-to-Year Annual Change. May 2016 nominal year-to-year change was a statistically-significant increase of 2.55% +/- 0.82%, versus an unrevised April annual gain of 3.00%, and a minimally-revised March 2016 annual gain of 1.69% [previously up by 1.67%].

Annualized Quarterly Changes**.** All the following growth rates are before adjustment for inflation. The pace of annualized nominal retail sales declined in first-quarter 2015 by an unrevised contraction of 2.80% (-2.80%), the worst quarter-to-quarter showing since the economic collapse.

Second-quarter 2015 retail sales growth revised lower to 6.13% [previously 6.16%], with third-quarter 2015 retail sales growth revising higher to 3.71% [previously 3.68%], and fourth-quarter 2015 annualized growth unrevised at 1.27%.

Annualized quarterly nominal retail sales growth in first-quarter 2016 revised minimally to a contraction of 0.22% (-0.22%) [previously down by 0.24% (-0.24%)].

Based on only two months' reporting (April and May 2016), second-quarter 2016 is on track for an annualized quarterly nominal growth rate of 5.65%. That had been 4.59% based solely on April's initial reporting.

Again, all these numbers are before any consideration for the effects of inflation. The initial monthly and annual inflation-adjusted real growth rates for May 2016 Retail Sales, and the trend for annualized second-quarter 2016 real change in retail sales, will be published with the June 16th release of the May 2016 CPI-U and accompanying *Commentary No. 814*. That said, adjusted for realistic inflation (see *Commentary No. 796*, *Commentary No. 807* 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.

May 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 May 2016 gain of 6.99% per the Department of Energy in gasoline prices], seasonally-adjusted monthly grocery-store sales increased by 0.26% in May 2016, with gasoline-station sales up by 2.11% 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: May 2016 versus April 2016 seasonally-adjusted retail sales series—net of total grocery store and gasoline-station sales—reflected a monthly gain of 0.33%, versus the official headline aggregate sales gain of 0.45%.

Version II: May 2016 versus April 2016 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—reflected a month-to-month 0.26%, versus the official headline aggregate sales increase of 0.45%.

Real (Inflation-Adjusted) Retail Sales—May 2016. The monthly gain of 0.45% in nominal May 2016 retail sales was before accounting for inflation. The monthly change in the inflation-adjusted real Retail Sales for May, again, awaits the related June 16th headline estimate of the May 2016 CPI-U consumer inflation.

Discussed in the *Week Ahead* section, the headline May CPI-U outlook is for roughly of 0.3% gain or 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 well could end up with a minimal, headline monthly gain, albeit effectively flat.

Annual CPI-U inflation in excess of one-percent, however, should knock down the headline real annual sales gain of 2.55% to well below two-percent, continuing an intense signal of recession.

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WEEK AND MONTH AHEAD

Economic Deterioration Should Intensify in the Weeks and Month Ahead, 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 continued Fed-policy waffling in the near term. The general trend in weakening expectations for business activity and movement towards looming recession recognition, reflect a broad spectrum of market-disappointing headline data. That unfolding circumstance has been detailed in *General Commentary No. 811*, *Commentary No. 810*, *Commentary No. 809*, *Commentary No. 808*, *Supplemental Commentary No. 807-A*, *Commentary No. 807*, *Commentary No. 806*, *Commentary No. 800*, *Commentary No. 799*, *Commentary No. 796-A*, *Commentary No. 796* and *No. 777 Year-End Special Commentary*.

In response to perpetual economic non-recovery and a renewed, 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—although market activity is somewhat mixed on oil at the moment—as discussed in *No. 811*, *No. 807* and *No. 799*. These market reactions reflect, at least in part, an intensifying sense of Federal Reserve impotence, despite any near-term games being played by the U.S. central bank. Further tightening by the Fed prior to the election remains unlikely, despite the continuing "good cop" versus "bad cop" routine ("rates are going" or "rates are not going up") used by various Fed officials with the investment community. Instead, renewed quantitative easing could become a target of intensified market speculation as the deepening recession unfolds and becomes increasingly obvious in the next several months.

Rapidly weakening, regular monthly economic reporting should be accompanied by much worse-than-expected—negative—reporting for at least the next several quarters of GDP (and GDI and GNP), as seen minimally with the initial reporting of a first-quarter 2016 contraction in the Gross National Product (GNP)—the broadest measure of U.S. economic activity—discussed in *No. 809*.

Such includes reasonable odds of a reported outright quarterly contraction in first-quarter 2016 GDP in the June 28th second monthly revision, as well as pending, meaningful downside revisions to GDP history (including likely headline quarterly contractions in first-quarter 2015, fourth-quarter 2015 and first-quarter 2016, should it still be in positive territory) come the July 29, 2016 annual GDP benchmark revisions.

Consistent with the relatively neutral benchmark revisions to retail sales and housing starts, and in line with recent sharp downside revisions to industrial production, durable goods orders, the annual revisions to the real merchandise-trade deficit and likely negative benchmark revisions to construction spending next month, expectations for the GDP benchmarking also should fall sharply. Discussed in the *Opening Comments* of *No. 810*, upside redefinitions to the service-sector trade surplus could have some minimal upside revision impact pre-2015. Nonetheless, that GDP benchmarking now appears to be 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 monthly March and April 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation is on track to rise further in May (see *Pending Releases*) and likely going forward, still boosted by a 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 was 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 increasing 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*.

UPDATED PENDING RELEASES:

Index of Industrial Production (May 2016). The Federal Reserve Board will release its estimate of Industrial Production activity for May 2016 tomorrow, Wednesday, June 15th, with coverage in

Commentary No. 813 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.

The outlook for second-quarter 2016 likely will turn from the current, bloated, small annualized growth rate, to a solid quarterly contraction, which would be the third-consecutive quarter-to-quarter decline, the fifth such decline in the last six quarters. That would be accompanied by a deepening pattern of year-to-year annual decline by quarter, the third such consecutive circumstance; one that never has been seen outside of a formal recession in the 97-year history of the production series.

Consensus indications appear to have settled in negative territory, down month-to-month by 0.1% (-0.1%) to 0.3% (-0.3%) in May 2016, but expectations have been disappointed fairly consistently on the downside in the last year or so of activity. Accordingly, headline reporting and monthly revisions remain good bets to offer negative surprises versus the consensus outlook.

Producer Price Index—PPI (May 2016). The Bureau of Labor Statistics (BLS) will release the May 2016 PPI also tomorrow, Wednesday, June 15th. Odds favor a headline gain in wholesale inflation, at least on the goods side of the reporting, due to a continued rebound in oil prices and related products.

Unadjusted oil prices rose sharply, again, in May 2016, along with a continued rise in gasoline prices. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices rose by 13.2% and 14.6%, in conjunction with some weakening in the U.S. dollar. That was accompanied by a second consecutive 7.0% rally in unadjusted monthly-average retail-gasoline prices (Department of Energy). Where PPI seasonal adjustments for energy costs in May are minimally negative, they still should leave the adjusted Final Demand Goods component of the PPI up by about 0.3%.

Oil prices have been rallying consistently enough, that the aggregate PPI number—often hit by some offsetting, more-negative and counterintuitive "inflation" in the dominant services sector—appears also to be moving some in a positive direction, which conceivably could put the aggregate headline PPI up by 0.3% to 0.4% for the month. Guesstimation in that services sector, however, remains highly problematic. Consensus estimates appear to have settled at a monthly gain of 0.3%.

The counterintuitive pricing pressures from shrinking profit margins along with the sharply rising oil prices are discussed in *Inflation that Is More Theoretical than Real World* on page 18 of *No. 806*.

Consumer Price Index—CPI (May 2016). The Bureau of Labor Statistics (BLS) will release the May 2016 CPI on Thursday, June 16th, and it will be covered in *Commentary No. 814* of that date. The headline May CPI-U should increase month-to-month by roughly 0.3%, or more, reflecting rebounding gasoline prices plus higher non-energy inflation. Headline annual inflation in May 2016 likely held around 1.1% for the second month. Consensus forecasts appear to have settled at a gain of 0.3%.

Continuing Positive Inflation Impact from Gasoline Prices. Average gasoline prices continued to increase in May 2016, up by 6.99% for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). Where BLS seasonal adjustments to gasoline prices in May 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 0.12% 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 (possibly 0.4%), once again, is a reasonable expectation.

Annual Inflation Rate. Noted in *Commentary No. 807*, year-to-year, CPI-U inflation would increase or decrease with the May 2016 monthly reporting, dependent on the seasonally-adjusted monthly change, versus the adjusted, headline gain of 0.29% in May 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 May 2016, the difference in May's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the April 2016 annual inflation rate of 1.13%. For example, a seasonally-adjusted, headline monthly gain of 0.3%, which appears within reason for the May 2016 CPI-U, would hold the annual CPI-U inflation rate for May 2016 at about 1.1%

Real (Inflation-Adjusted) Retail Sales (May 2016). The nominal monthly gain of 0.45% in May 2016 Retail Sales was before accounting for inflation (see the *Reporting Detail*). The monthly change in inflation-adjusted real retail sales for May awaits the June 16th headline estimate of May 2016 CPI-U consumer inflation. With the headline CPI-U inflation likely to show a headline monthly gain in excess 0.3%, the headline real retail sales would be reduced by a parallel amount versus the headline nominal gain.

Annual inflation should hold around 1.1%, reducing the headline nominal annual gain in May 2016 retail sales of 2.55% to well 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 prior *General Commentary No. 811*. 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 the income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise.

Residential Construction—Housing Starts (May 2016). The Census Bureau will release May 2016 residential construction detail on Friday, June 17th, covered in *Commentary No. 815* of that date.

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. After the extreme surge in headline April starts, May reporting likely to be on the catch-up downside, which is where consensus estimates have settled, but with expected monthly declines still well shy of statistical significance.

Irrespective of the generally meaningless headline detail (although a headline monthly downturn in May 2016 and downside revision to April 2016 are reasonable expectations), the broad pattern of housing starts should remain consistent with the low-level, stagnant activity, seen in the series at present, where April 2016 activity remained down by about 48% (-48%) 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. Again, this series remains 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, again, were updated fully in the prior *General Commentary No. 811*. 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 and real retail sales.

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