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COMMENTARY NUMBER 831
General Outlook

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Tough Week Ahead for Headline Economic Data

No Chance of a Near-Term Overheating of the Economy

Jawboning for an Imminent FOMC Rate Hike Hits Stocks,
Boosts the Dollar, Hits Gold and Silver

Broad Outlook Unchanged

PLEASE NOTE: The next regular Commentary*, scheduled for Thursday, September 15th, will cover August Industrial Production, nominal Retail Sales and the Producer Price Index (PPI). A Commentary on September 16th will cover the August Consumer Price Index (CPI), real Retail Sales and Earnings, as well as fully updated Consumer Liquidity Conditions. New liquidity information will encompass the Census Bureau's September 13th release of the* 2015 Poverty Survey *and related annual income detail, as well as the Fed's September 16th second-quarter 2016 Flow-of-Funds accounting.*

Best wishes to all — John Williams

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GENERAL COMMENTARY

Economy Continues to Tank, While Fed Officials Huff and Puff with Increased Vigor. As we go to press on September 9th, the domestic equity markets are having a tough day amidst an increasing chorus of "raise interest rates," from various Federal Reserve officials. As assessed by the markets, odds are increasing for a near-term Fed rate hike, although the odds are not overwhelming, yet, for a rate increase out of the pending Federal Open Market Committee (FOMC) meeting that ends on September 21st.

At the risk being repetitive, and as discussed in *Commentary No. 827* and *Commentary No. 829*, the FOMC can raise interest rates any time it desires, without prior approval from anyone outside the Fed. Accordingly, the increased hype primarily has to be aimed at manipulating the various markets, such as propping the U.S. dollar. Separately, it remains highly unusual, and it is not politic, for the Federal Reserve to change monetary policy immediately before a presidential election.

To the extent that the FOMC has succeeded in tying public expectations of shifts in monetary policy to economic activity, the economy is not going to cooperate with Fed's hawks, but, again, it does not have to, in the near term, if the Fed simply wants to raise rates.

Irrespective of any near-term tightening or lack of same by the FOMC, underlying, deteriorating economic conditions promise renewed domestic, systemic stress, in terms of banking-system liquidity, and in terms of fiscal pressures on and funding needs for the U.S. Treasury. Such circumstances remain highly conducive to expanded, not reduced, quantitative easing in the year ahead.

Noted in *Commentary No. 829*, prospects for expanded easing beyond purchases of U.S. Treasuries, Agencies and Mortgage-Backed Securities to include Corporate Bonds and Equities were raised at the Federal Reserve's meeting in Jackson Hole. Irrespective of near-term regulatory constraints, such expansive asset purchases likely would be the chosen course for Federal Reserve policy. With no way of effectively addressing the ongoing and expanding systemic-liquidity woes, these actions might buy some more time, but they also likely would accelerate pushing the system into what should become an uncontainable inflation circumstance.

While domestic fiscal circumstances already were well beyond reasonable hope of containment at the time of the Panic of 2008, it was the decision then of the U.S. Treasury and the Federal Reserve to save the banking system at any cost, which doomed the system to this perpetual, devolving quantitative-easing circumstance. The circumstance remains likely to end in a hyperinflationary, economic collapse (see *No. 777 Year-End Special Commentary*).

Deteriorating Economic Data Loom in the Week Ahead. Today's (September 9th) *Commentary* is very brief and general in scope, where there have been no major economic releases this week. That will change in the week ahead. August headline detail on industrial production and retail sales likely will confirm a continuing downturn in basic, underlying economic activity. The unfolding circumstances do not threaten an overheating economy, as professed by at least one FOMC member.

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What was released this week was the initial estimate of the benchmark revision to nonfarm payrolls, where the total March 2016 payroll level was revised lower by 150,000 (-150,000) jobs. Net of a surprisingly-large 74,000 upside revision to government payrolls, the downside revision in private or non-government employment was 240,000 (-240,000) jobs. The government usually has actual counts—not sampled surveys—of government employment.

The benchmarking generally reconfirmed the regular monthly and annual overstatement of payroll employment. The downside revisions will be interpolated and adjusted back to the prior benchmarking of March 2015, and imputed forward to the present, likely to reduce current payrolls by something well in excess of 200,000 jobs (see *Commentary No. 830*).

WEEK AND MONTH AHEAD

Near-Term Headline Economic Deterioration Should Intensify, Increasingly Frustrating Fed Provocateurs, Pummeling the U.S. Dollar and Boosting Gold, Silver and Eventually Oil Prices. Market expectations for business activity should continue to deteriorate, amidst intensifying, negative headline economic reporting. Irrespective of any near-term rate hike by the FOMC, Fed-policy retrenchment likely should remain very much alive, shifting towards renewed quantitative easing in the months ahead.

The general trend in weakening expectations for business activity and movement towards looming recession recognition, reflect an ongoing broad spectrum of market-disappointing headline data. The initial payroll benchmark revision for 2016 was discussed in *Commentary No. 830*, following the latest headline detail on payrolls, trade and construction spending in *Commentary No. 829*. Headline Gross Domestic Product (GDP) and related series were discussed in *Commentary No. 828*, with broad detail otherwise reviewed in *Commentary No. 827*, *Commentary No. 826*, *Commentary No. 825*, *Commentary No. 824*, *Commentary No. 823*, *Commentary No. 822*, *Commentary No. 821*, *Commentary No. 820*, *Commentary No. 818*, *Commentary No. 817*, *General Commentary No. 811*, *Supplemental Commentary No. 807-A*, *Commentary No. 800*, *Commentary No. 799*, *Commentary No. 796-A*, *Commentary No. 796* and *No. 777 Year-End Special Commentary*.

Negative market reactions had surfaced in trading of the U.S. dollar and in related financial markets, with some upside pressure on gold, silver and oil prices, subsequent to recent, weaker-than-expected headline economic data or suggestions of a less-aggressive tightening stance by the Fed. Fed rate-hike jawboning, however, has put a temporary flutter into those market movements, placing some Fed-desired support under the U.S. currency. The fundamental liquidity issues facing the Fed, however, remain dominated by the impact of perpetual U.S. economic non-recovery and a renewed, intensifying downturn.

Temporary jawboning aside, market reactions increasingly should reflect a renewed sense of Federal Reserve impotence, with bleak longer-term implications for the U.S. dollar. While anything is possible, Fed tightening prior to the election still remains unlikely, with renewed quantitative easing becoming the likely target of post-election speculation, as the deepening recession unfolds. This should become increasingly obvious in the next several months (see today's *General Comments*).

Rapidly weakening, regular monthly economic reporting should result in much worse-than-expected—increasingly negative—reporting for at least the next several quarters of GDP (and GDI and GNP).

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 to June 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation was "unchanged"—minimally negative—with a switch to positive seasonal adjustments for gasoline prices only partially offsetting the unadjusted monthly drop in gasoline prices in July. Those shifting energy seasonals should boost the August detail more strongly, resulting in at least a minimal headline monthly gain (see *Pending Releases*). Going forward, a weakening U.S. dollar increasingly should boost inflation, with a related upturn in oil prices, gasoline and other commodities. The *Public Commentary on Inflation Measurement* reviews fundamental reporting issues with the headline CPI.

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, with the use of concurrent seasonal adjustments (as seen with retail sales, durable goods orders, employment and unemployment data). That issue is 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. That construction-spending issue now appears to have been structured as a gimmick to help boost the recently-published 2016 GDP benchmark revisions, aimed at smoothing the headline reporting of the GDP business cycle, instead of detailing the business cycle and reflecting broad economic trends accurately, as discussed in *Commentary No. 823*.

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*. In the 1990s, the Census Bureau and BLS played political-reporting games with the nature of statistical sampling size in “inner cities” in the Census Bureau surveying tied to the monthly Household Surveys and the annual piggy-backed Poverty Survey. Such had major distorting impact on the headline data, and it may be in the works, again.

PENDING RELEASES:

Index of Industrial Production (August 2016). The Federal Reserve Board will publish its estimate of August 2016 Industrial Production activity on Thursday, September 15th, with coverage in *Commentary No. 832* of that date. Headline monthly reporting likely will resume monthly contractions—having had a gain in July—along with continued and uninterrupted annual contractions. While consensus expectations appear to be gelling on the downside, a headline monthly production drop worse than wherever the consensus estimates finally settle is likely. Again, that also should be in the context of continuing downside revisions to the last six months of data.

Nominal and Real Retail Sales (August 2016). The Census Bureau also has scheduled release of August 2016 nominal (not-adjusted-for-inflation) Retail Sales for Thursday, September 15th, to be covered in *Commentary No. 832* of that date. Detail on real (adjusted-for-inflation) Retail Sales will be covered in the subsequent *Commentary No. 833* of September 16th, coincident with the release by the Bureau of Labor Statistics (BLS) of the August 2016 Consumer Price Index (CPI-U), discussed below.

With a good chance of a monthly increase in the CPI-U, there is a parallel chance for real sales growth in August to be somewhat more-negative or weaker than the headline nominal sales activity. Despite declining, unadjusted gasoline prices in August, seasonal-factor swings, increasingly to the upside in August and September, will offset most of any negative inflation contribution from energy, along with some gains in non-energy inflation. The pace of annual CPI-U inflation should remain positive, helping to generate a deepening recession signal in the historically low-level, annual real Retail Sales growth.

Market expectations appear to be settling into the “unchanged” area, month-to-month, for headline nominal August Retail Sales, reflecting weakening auto sales and minimal gains in retail-store activity. An outright nominal monthly sales contraction in August 2016 and downside revisions to June and July activity generally are fair bets.

Fully updated in *Commentary No. 825*, with partial revisions in *Commentary No. 829* and due for updated new annual income measures in *Commentary No. 832* of September 16th, *Conumer Liquidity Conditions* remain impaired. The extreme liquidity bind besetting consumers continues to constrain activity in personal-consumption expenditures and retail sales. 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 retail sales, real or otherwise.

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Producer Price Index—PPI (August 2016). The Bureau of Labor Statistics (BLS) will release the August 2016 PPI on Thursday, September 15th, with detail covered in *Commentary No. 832* of that date. Odds favor a small, positive headline gain in wholesale inflation, at least on the goods side of the reporting, due to a relatively stronger oil prices and related products.

Unadjusted oil prices rose in August 2016, along with a reduced drop in gasoline prices. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices rose by 0.2% and 2.0%. That was accompanied by a 2.6% (-2.6%) decline in unadjusted, monthly-average retail gasoline prices (Department of Energy). Where PPI seasonal adjustments for energy costs in August are positive, they still should contribute to pushing the adjusted Final Demand Goods component of the PPI to the plus side.

Energy- and other goods-related inflation will be supplemented or hit by counterintuitive "inflation" or "deflation" in the dominant services sector, from rising or falling "margins." Guesstimation in that services sector remains highly problematic. Counterintuitive pricing pressures from shrinking profit margins with the sharply rising oil prices, for example are discussed in *Inflation that Is More Theoretical than Real World?* in *Commentary No. 825*.

Consumer Price Index—CPI (August 2016). The Bureau of Labor Statistics (BLS) will release the August 2016 CPI on Friday, September 16th, which will be covered in *Commentary No. 833* of that date. The headline August CPI-U should show a small gain, perhaps plus 0.1%, with declining gasoline prices effectively neutralized by offsetting, positive seasonal-factor adjustments. Headline year-to-year annual inflation for August 2016 likely will hold around an unadjusted 0.9%, plus or minus.

Neutral Inflation Impact from Gasoline Prices. Average gasoline prices declined in August 2016, down by 2.60% (-2.60%) for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). Where BLS seasonal adjustments to gasoline prices in August increasingly are on the plus-side, they should offset most of the unadjusted price decline in gasoline, leaving it minimally negative. Adjusted gasoline prices should contribute roughly a negative 0.02% (-0.02%) to the headline monthly change in the CPI-U. Boosted by higher food and "core" (net of food and energy) inflation, a headline monthly CPI-U reading of 0.1%, plus or minus, is a reasonable expectation.

***Annual Inflation Rate*.** Noted in *Commentary No. 826*, year-to-year, CPI-U inflation would increase or decrease in August 2016 reporting, dependent on the seasonally-adjusted monthly change, versus the adjusted, headline decline of 0.01% in August 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 August 2016, the difference in August's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the July 2016 annual inflation rate of 0.84%. For example, a seasonally-adjusted 0.1% monthly gain in August 2016 CPI-U, would hold the annual CPI-U inflation rate for August 2016 at around 0.9%, plus-or-minus, depending on rounding.

PLANNED UPDATES: Comprehensive *Special Report* and ShadowStats Website. The plan is to update fully, into one, massive background piece—a *Special Report (Commentary)*—the latest broad outlook for the U.S. and global economies, financial markets and systems, and inflation (U.S. hyperinflation). All of that will be in the context of incorporating and fully revising, wherever necessary, the materials in the *2014 Hyperinflation Report—The End Game Begins*, *2014 Hyperinflation Report—Great Economic Tumble*, *No. 777 Year-End Special Commentary* and other intervening missives, including the most-recent *Hyperinflation Outlook Summary* as found in *Commentary No. 783*.

The various background articles available at the www.ShadowStats.com site also will be updated in the process, including those first published in 2004 as introductory articles to the site. As usual, all original material will remain available to subscribers (all original public material also will remain available to anyone visiting the site).

As to timing, the *Special Report* already is in the works and should be published in early-October. It will incorporate fully up-to-date economic detail, including the mid-September 2016 release by the Census Bureau of its 2015 income survey, the Bureau of Labor Statistics' just-released preliminary benchmark revisions to 2016 payroll employment (see *Commentary No. 830*). It also will include updated, consistent GAAP-based financial detail on the U.S. government's financial condition through September 30, 2015 and initial prospects for the fiscal year ended September 30, 2016.

Updates to the various public materials on the Web site will be staggered through year-end. The introduction of the *2004 Primer Series* will be first (the link is to the initial background article that addressed among other issues political manipulation of data).

We also will introduce, in conjunction with the *Special Report*, a section with links to books and articles that we have found of particular interest and substance. Anyone with materials they would like to have considered for inclusion should send details in an e-mail to johnwilliams@shadowstats.com or call John Williams directly at (707) 763-5786.

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