John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 839
September Nominal Retail Sales, PPI, Liquidity, Presidential Election

October 14, 2016

Incumbent Party Has Lost the White House in Every Election Since 1932, When Annual Real Disposable Income Growth Has Been Below 2.9%

Second-Quarter 2016 Real Disposable Income Growth Was 1.8%

Results of the Highly Contentious U.S. Presidential Election Should Be Bullish for Gold, Irrespective of the Winner

Nominal September Retail Sales Gain of 0.6% Was Dominated by Rising Prices and Gimmicked Seasonal-Adjustment Revisions

Monthly September PPI Inflation: Goods up 0.65%, Services up 0.09%, Construction up 0.09%, Total up 0.27%

Consumer Liquidity Continues to Constrain Economic Activity

PLEASE NOTE: The next regular Commentary*, scheduled for Monday, October 17th, will cover September Industrial Production. Subsequent* Commentaries *on Tuesday, October 18th, and Wednesday, October 19th, respectively will cover the September CPI and related real Retail Sales, and September Housing Starts.*

A Special Note to Subscribers

CORRECTED TEXT: Where I have been under the weather for the last week or two, the prior Commentary *on labor conditions had an unusually large number of typos and a minor omission, for which I apologize. The items found were corrected in a re-posted version of* Commentary No. 838*. The*

corrections were minor, perhaps adding some clarity, but they altered neither the basic story nor the given/intended meaning of the text. Nonetheless, the clean text is there for those interested.

CHANGE IN PUBLICATION PLANS: My temporary ailment is under appropriate medical treatment, and I should be back to full speed in the next week or so. Nonetheless, the circumstance has disrupted the planned production this month of a single-document consolidation of earlier Special Reports *(see the* Week and Month Ahead *section). The regularly planned, usual weekly* Commentaries*, however, have not been affected, other than for some expansion, as discussed here.*

With the U.S. election less than four weeks away, publication of the consolidated document will follow the election, reflective of, and simplified by having actual electoral results in hand. In the interim, beginning with today's (October 14th) missive, the ShadowStats outlooks for the U.S. economic circumstance, Federal Reserve policy and systemic liquidity issues, value of the U.S. Dollar, prices for gold, silver and oil, and domestic inflation, all will be updated, reviewed and assessed in terms of various potential election outcomes. Related Special Supplements *will accompany* Commentary No. 841 *and* No. 842 *respectively of October 18th and 19th*.

Please call me (707) 763-5786 if you have questions or would like to discuss any of the issues.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Weak Economic Conditions Generally Are Bad News for the Incumbent Party Holding the Presidency. Current economic conditions traditionally would suggest that the Democrats will lose the White House in 2016, as well as lose ground in seats in the Senate and House of Representatives. Prior writings and assessments are reviewed here, largely as background as to why Donald Trump gained the Republican nomination, and as to why he was moving ahead in the polls versus Hillary Clinton, when the underlying fundamentals were being debated. As Mr. Trump was gaining in the polls, the campaign turned extraordinarily negative. Where things stand in the wake of the current turmoil will be assessed in next week's *Special Comments*.

The fundamental driving issue behind the unfolding political change remains the U.S. economy and lack of consumer liquidity. With employment and income savaged by poor-quality trade agreements, which have shifted significant domestic productive capacity and wealth offshore, and with the financial system operating outside of reasonable norms and control, the U.S. economy collapsed into 2009 its greatest

tumble since the Great Depression. Not only has it not recovered as indicated by heavily-inflated, headline GDP reporting, but also it is turning down anew (see *Commentary No. 836*).

Where Secretary Clinton promises continued and expanded government policies of recent years, Mr. Trump is promising change. Whichever candidate wins the White House, however, the financial markets and the U.S. dollar likely will face some near-term turmoil, with some likely offsetting flight to gold.

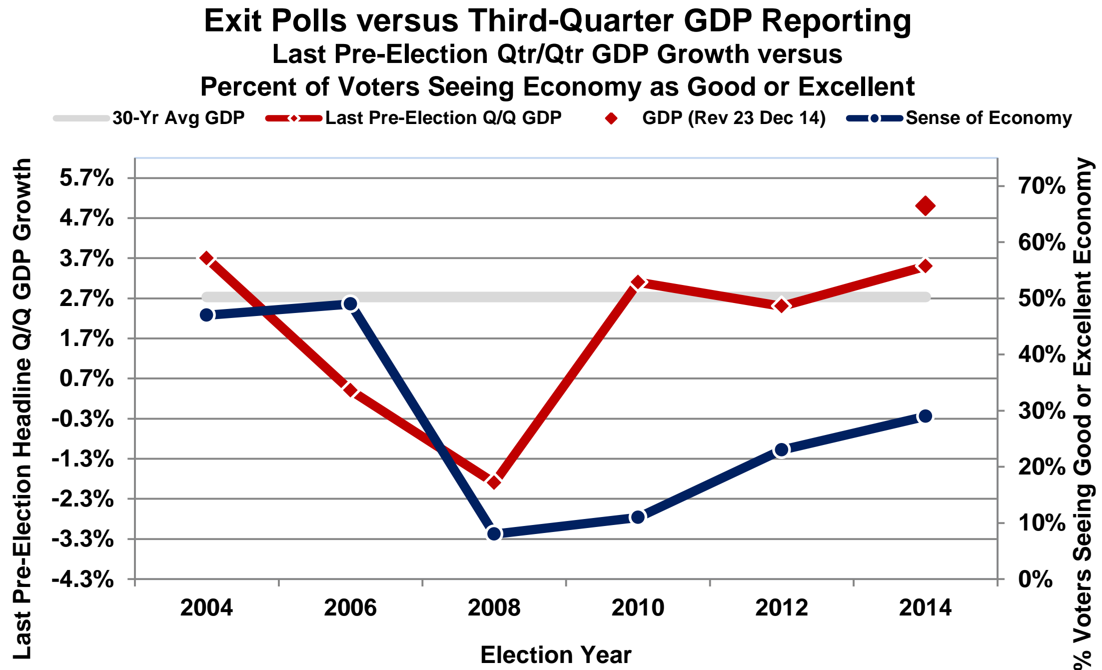
The problem over the near-term remains the Federal Reserve and its inability to re-establish financial-system stability and credibility. As the economy increasingly falters, mounting stress on the financial system likely will push the Fed into expanded quantitative easing, as often noted here (see references and links in the *Week and Month Ahead* section) in an effort to anchor financial stability.

Ms. Clinton already has her Fed in place. Mr. Trump likely will have a difficult time replacing Fed Chair Janet Yellen, before her term expires on February 3, 2018. Mr. Trump's circumstances could be further constrained should he lose control of one or both of the Senate or House. These areas will be explored in the week ahead, as to likely impact on the economy, to the stock market and as to the value of the U.S. dollar and gold. With early, post-election complications for the Fed, I would not bet against gold.

Economic Reality versus U.S. Elections. Discussion from *Commentary No. 805* of May 6, 2016:

> ***Economic Conditions Weigh Heavily Against the Incumbent Party Holding the White House.*** With Donald Trump declared as the "Presumptive Republican Nominee" for President in 2016, it seems appropriate to revisit comments from *No. 777 Year-End Special Commentary* of December 30, 2015:
>
> > ***Main Street U.S.A. Should Vote its Pocketbook, Again.*** Personal financial circumstances, when they are particularly negative or positive, tend to dominate national elections more than any other factor. Financial circumstances for the average voter are miserable, and that should turn voting heavily negative against the incumbents. As background, I consider myself to be [an] old-line conservative Republican with a Libertarian bent, and do my best to keep my personal politics out of my writing.
> >
> > That said, Main Street U.S.A. historically has an extraordinarily good track record in recognizing underlying economic reality, as commonly reflected by electoral swings against the incumbent party holding the White House, when difficult pocketbook issues have dominated voter concerns (see *Commentary No. 672*). Also, in recent years, exit polls, such as seen in the 2014 midterm elections, generated a reading of the public's view of the third-quarter 2014 economy that was consistent with quarterly contraction, not with booming quarterly growth.
> >
> > Plotted in [the accompanying graph from *No. 777*], the red line with the diamond-points and left scale represents the latest headline quarterly GDP growth rate prior to the [mid-term 2014] election, which was 3.5% in initial third-quarter 2014 GDP reporting (the single large diamond reflects the subsequent December 23rd revision of third-quarter activity to 5.0% [later revised to 4.3% in the 2015 GDP benchmarking [and back to 5.0% in 2016]]). The blue line with the circle points shows the exit poll reading of how voters viewed the economy. An average economy would be 50% of voters viewing the economy as good or excellent, which would be about 2.7% for the GDP (thirty-year average).
> >
> > In more-normal economic times, such as seen in 2004 and early-2006, exit polls from the presidential or midterm elections of those years showed about half the voters rating the national economy as 'excellent or good,' with a 50% rating there being average. Not too surprisingly, that assessment of 'excellent or good' dropped to 8% in 2008, as the economy was collapsing, inching higher to 11% in the early-recovery period of 2010. Yet, the 'excellent or good' descriptor only recovered to 23% in 2012 and to 29% in 2014, despite the purported robust economic recovery and expansion in GDP activity (all those headline numbers were before downside [GDP] benchmark revisions in July 2015 [and relatively neutral benchmark revisions in July 2016, see *Commentary No. 823*]).

ECONOMY – CONSUMER/VOTER – Exit Polls versus Headline GDP Reporting (2004 - 2014)



Main Street U.S.A. was not looking at a fully-recovered and booming economy in third-quarter 2014, as of the November 4, 2014 election. The exit-poll economic rating was consistent with an outright quarter-to-quarter contraction in real third-quarter GDP activity, a quarter that had ended on September 30th, more than one month before the election. The voters certainly did not believe the headline 3.5% third-quarter growth published the week before the election. If they did not believe that, they most likely also did not believe the 5.0% revised growth rate published on December 23rd as the third estimate, second revision to third-quarter GDP growth.

Once again, current circumstances are sharply negative for personal finances (see the *Consumer Conditions—Liquidity Issues Plague the Electorate* [again in *No. 777*]). Donald Trump's success in early polling for the Republican nomination likely reflects the disgruntlement with the economy, among other factors. Mr. Trump looks like he could take the nomination, assuming he can get through the political machinery of the Republican convention. If nominated, background economic conditions suggest that Main Street, U.S.A. would put him in the White House.

Since the preceding was written, actual economic conditions not only still have not recovered, but they have gotten worse. Again, Main Street U.S.A. has a good sense of economic reality. As noted in an Associated Press story of May 3, 2016 on the Indiana primary: "More than 9 in 10 Republican primary voters and more than 8 in 10 Democratic primary voters are either very or somewhat worried about the economy, according to early results from exit polls conducted for The Associated Press and television networks by Edison Research."

Discussed frequently here, underlying reality remains that economy has entered a "new recession," a circumstance that will not reverse before the November 8th election. Based on more than a century of economic data and election results, current actual economic conditions strongly favor a loss for the incumbent party holding the White House.

As of October 11, 2016, Gallup polling showed the economy "good or excellent" at 27%, but that is a reading of the general population, not of those voting who are disgruntled with the economy. Exit polling from the November 8th election likely will show a more-negative number.

Latest Annual Real Disposable Income Growth at 1.8% (Second-Quarter 2016), at 2.0% (First-Half 2016). The detail in the following table was compiled at the time of the 2014 mid-term election, and it has not been updated since subsequent and highly questionable GDP benchmark revisions. As of the latest July 2016 benchmarking, the real DPI in 2012 has revised to 3.2%, from 3.0%, which does not change the story on the presidential elections. The real DPI in 2014, revised to 3.5%, from 2.5% in the initial reporting of the first nine months of 2014, which would have favored a different Congressional result, if it were truly reflective of underlying reality, instead of gimmicked benchmarking (see *Commentary No. 823*).

From *Commentary No. 672* of November 9, 2014*:*

As shown in the accompanying table, since 1930 (using the earliest reporting of the current official version of disposable income), every time annual real disposable income (DPI) has been below 2.9%, in either a Presidential Election year, or a Midterm Election year:

- In Presidential Election Years (DPI below 2.9%). The incumbent party holding the White House always has lost the White House, and usually has lost seats in both the House and Senate. For example, in 2008, when the Republicans were the incumbent party holding the White House with George W. Bush, and real disposable income growth was at 1.5% that year, below the 2.9% threshold, the Republican John McCain lost to the Democrat Barack Obama. The Republicans also lost seats in both the House and the Senate.

- In Midterm Election Years (DPI below 2.9%). The incumbent party holding the White House always has lost seats in both the House and Senate. For example, in 2014, when the Democrats were the incumbent party holding the White House with Barack Obama, and annual real disposable income growth was 2.5% (for the first three quarters of 2014), below the 2.9% threshold, the Democrats lost control of the Senate, as well as seats in the House. With the same incumbency, similar results were seen in the 2010 Midterm Election, where disposable income was at 1.0%. The Democrats lost control of the House, as well as seats in the Senate.

Many factors impact elections, but the economic or pocketbook issues tend to dominate, particularly when the economy is weak and the electorate is hurting financially. In the 22 midterm elections since 1930, 17 have seen losses in both House and Senate seats for the incumbent party holding the White House. Three elections have had mixed losses and gains, and only two elections have shown incumbent gains in both the Senate and the House.

Of the 17 elections with incumbent losses in both the House and the Senate, 11 were dominated by economies weak enough to take annual real disposable income growth to below 2.9%, as shown in the table. The six remaining midterm losses in both the Senate and House reflected impact primarily from wars (World War II, Korea, Vietnam, Iraq) or issues such as an energy crisis.

[See the table on the following page]

Pocketbook Issues versus Presidential and Midterm Elections (1930*-2014)

All Election Years Where Official Real Disposable Income Growth Was Less Than 2.9%

Sources: www.ShadowStats.com, St. Louis Federal Reserve

In every bi-annual federal election since 1930, when annual growth in inflation-adjusted (real) disposable income fell below 2.9%, the incumbent party holding the White House always lost the White House in a Presidential Election year, and always lost seats in both the House and Senate in a Midterm Election year.

All Federal Election Years Since 1930 Where Growth in Real DPI < 2.9%	Real DPI Year/Year Percent Change	Incumbent Party Holding White House: R - Republican D - Democrat	Election Results for Party Holding White House**
1930 - Midterm	-6.32%	R-Hoover	Lost seats in both House and Senate.
1932 - Presidential	-13.09%	R-Hoover	Hoover lost to Roosevelt.
1938 - Midterm	-5.48%	D-Roosevelt	Lost seats in both House and Senate.
1946 - Midterm	-1.05%	D-Truman	Lost control of both House and Senate.
1954 - Midterm	1.43%	R-Eisenhower	Lost seats in both House and Senate.
1958 - Midterm	1.06%	R-Eisenhower	Lost seats in both House and Senate.
1960 - Presidential	2.62%	R-Eisenhower	Nixon lost to Kennedy.
1974 - Midterm	-1.13%	R-Ford	Lost seats in both House and Senate.
1980 - Presidential	0.72%	D-Carter	Carter lost to Reagan.
1982 - Midterm	2.08%	R-Reagan	Lost seats in House, Senate seat shifted.***
1990 - Midterm	1.99%	R-GHW Bush	Lost seats in both House and Senate.
1994 - Midterm	2.74%	D-Clinton	Lost control of both House and Senate.
2008 - Presidential	1.54%	R-GW Bush	McCain lost to Obama.
2010 - Midterm	1.03%	D-Obama	Lost control of House and seats in Senate.
2014 - Midterm****	2.50%	D-Obama	Lost control of Senate and seats in Republican House.
In the year of the 2012 Presidential race, real disposable income growth exceeded 2.9%.			
2012 - Presidential	3.02%	D-Obama	Re-elected; gained seats in both House and Senate.

* Official Disposable Personal Income (DPI) from Bureau of Economic Analysis, deflated by the GDP implicit price deflator, is available on an annual basis only from 1929 on (2014 based on three-quarters of reporting).

** Large variety of historical sources, with heavy usage of CNN and Wikipedia. In Presidential Elections with real DPI below 2.9%, except for 1960, the White-House incumbent party lost seats in both the House and Senate, as well as the Presidency. In 1960, with Nixon losing to Kennedy, seats were lost in the House, gained in the Senate.

*** Democrats picked up one seat from a retired independent, unchanged Republican count.

**** Annual real DPI growth is for nine months through September 2014.

Today's *Commentary* (October 14th). The balance of these *Opening Comments* covers the summary of the September 2016 nominal Retail Sales and condensed headline PPI detail, along with an update to

Consumer Liquidity Conditions. The *Reporting Detail* includes expanded detail on the nominal Retail Sales reporting, as well as the more-comprehensive sub-category details for the September PPI.

The *Week and Month Ahead* previews next week's releases of September Industrial Production, CPI and real Retail Sales, and Residential Construction, including Housing Starts.

Nominal Retail Sales—September 2016—Boosted by Rising Prices and Seasonal-Adjustment Inconsistencies, Sales Rose by 0.6%. Once again, the shifting of concurrent seasonal adjustment factors in the latest headline detail upped relative growth in the headline number, September 2016 nominal retail sales growth of 0.62%, versus the published historical data that were not revised on a consistent basis. Net of that, the headline nominal retail sales gain would have been about 0.45%, which could have been fully accounted for (most likely largely accounted for) by rising prices, as will be seen with the headline September CPI-U inflation reporting. Where the seasonal-factor distortions have been a major, distorting factor in headline month-to-month detail of the last several years, they had provided minimal distortions since the April 2016 benchmarking of the retail series, up until last month's headline release of August 2016 sales (see *Seasonal-Factor Distortions Generated Artificially-Stronger Headline September Sales ...* in the *Reporting Detail* section).

Nominal (Not-Adjusted-for-Inflation) Retail Sales—September 2016. In the context of upside revisions to previously-reported levels of retail sales in July and August 2016, headline nominal Retail Sales for September 2016 rose by 0.62%, versus a positively revised 0.19% (-0.19%) monthly decline in August, and against an minimally-revised gain of 0.10% in July 2016.

The seasonally-adjusted, headline September 2016 monthly gain of 0.62% was marginally, statistically significant. Net of prior-period revisions, September sales rose by 0.77%. The revised monthly August 2016 retail sales decline of 0.19% (-0.19%) was statistically-insignificant.

September 2016 nominal year-to-year change showed a statistically-significant increase of 2.67%, versus an upwardly-revised annual gain of 2.06% in August 2016, and a minimally-revised 2.40% annual gain in July 2016.

Real Retail Sales (September 2016). Coincident with the release of the September CPI on Tuesday, October 18th, headline nominal September Retail Sales will be adjusted for inflation and recast as real Retail Sales. Where headline September CPI-U likely will show a moderate monthly increase, there is a parallel chance for the monthly real change in September retail sales to weaken sharply from the headline nominal monthly gain of 0.62%. The pace of annual CPI-U inflation also should increase, generating an ongoing, intense recession signal from the historically low-level, annual real Retail Sales growth.

Structural Liquidity Issues Continue to Impair Retail Sales. An extreme consumer-liquidity bind continues to constrain retail sales activity, as updated in the *Liquidity Conditions* section later in these *Opening Comments*.

Producer Price Index (PPI)—September 2016—Goods Inflation Rose by 0.65%; Construction Inflation and the Profit Margins in the Dominant Services Sector Both Rose by 0.09%; with

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Aggregate PPI Inflation up by 0.27%. The headline month-to-month gain of 0.27% in September 2016 PPI followed an "unchanged" reading in August, with annual inflation rising to 0.73% in September 2016 from an "unchanged" reading in August 2016. The headline PPI inflation generally was reflected neither in real world activity, nor in common experience. The same can be said for most of its major subcomponents, which are discussed in the *Reporting Detail* section.

Liquidity Conditions Continue to Constrain Consumption and Broad Economic Activity. Underlying fundamentals to consumer economic activity, such as liquidity, have been impaired severely 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 crisis.

Consumer liquidity and household income conditions were reviewed fully in *Commentary No. 833*, along with revised Consumer Confidence and Household Income detail in *Commentary No. 836*. Today's review covers the general spectrum of consumer measures in a full update, along with new detail on the University of Michigan's Consumer Sentiment Index for Early-October 2016, and the Fed's monthly Consumer Credit Outstanding through August 2016.

Generally, the higher and stronger those measures are, the healthier is consumer spending. Most measures of consumer liquidity and attitudes remain off their lows, and one—real monthly median household income—actually had spiked recently to pre-recession levels, reflecting the temporary collapse in gasoline prices and deflation by the otherwise underestimated headline CPI-U inflation. Real monthly median income, however, generally has begun to move lower, again, along with a pickup in consumer inflation (see the discussion with *Graph 1*).

Still, these underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. Never truly recovering in the post-Panic of 2008 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 sales and construction activity, as well as having constrained 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 having recovered fully from the collapse into 2009, consumers again are pulling back on consumption, as evidenced by a renewed slowdown in broad economic activity (see *Commentary No. 836*). There has been no economic recovery, and there remains no chance of significant, broad economic growth, without a meaningful, fundamental upturn in consumer- and banking-liquidity conditions.

Monthly Household Income Measure Still Signals Broad-Based Economic Difficulties. Shown in *Graph 1* is the latest monthly real median household income detail through August 2016, as reported by www.SentierResearch.com. Headline median household income turned down anew, with a statistically-

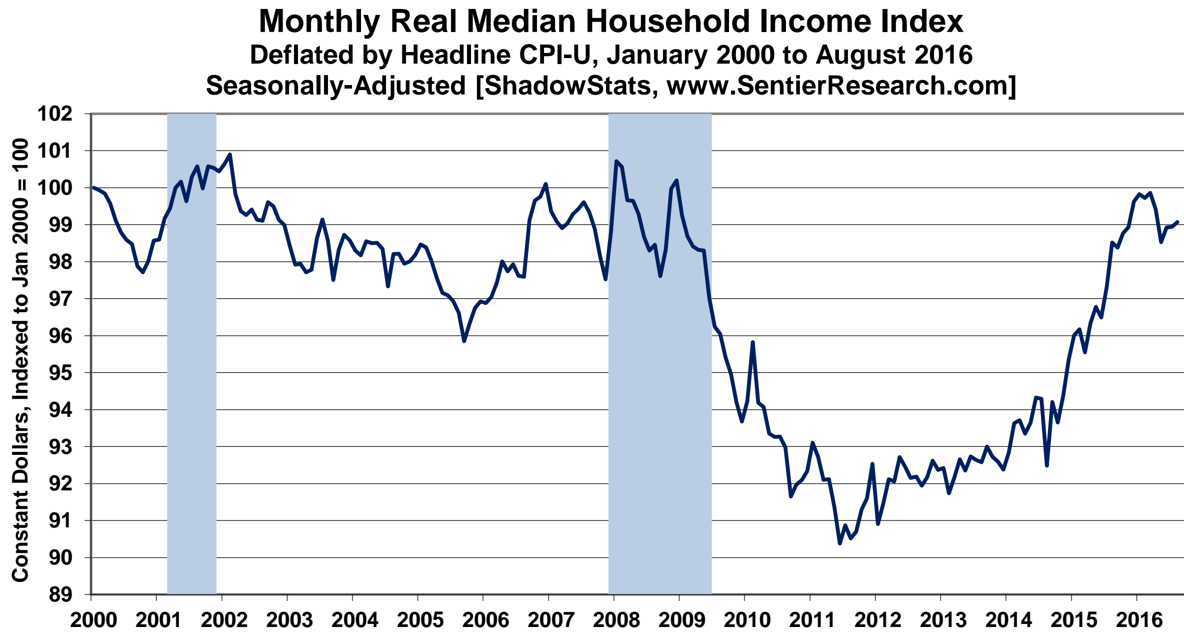
significant monthly decline in May 2016, after several months of statistically-insignificant flutterings around its near-term January 2016 peak, and with statistically-insignificant flutterings again in June, July and August 2016. The minimal headline gain in August was not statistically meaningful.

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 CPI-U 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 turn down anew, as headline monthly consumer inflation continues to pick-up in the months ahead.

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

This measure of real monthly median household income generally can be considered as a monthly version of the annual detail shown in *Graph 2*, which was updated recently for 2015 detail (see the full analysis of the 2015 annual household income reporting in *Commentary No. 833*).

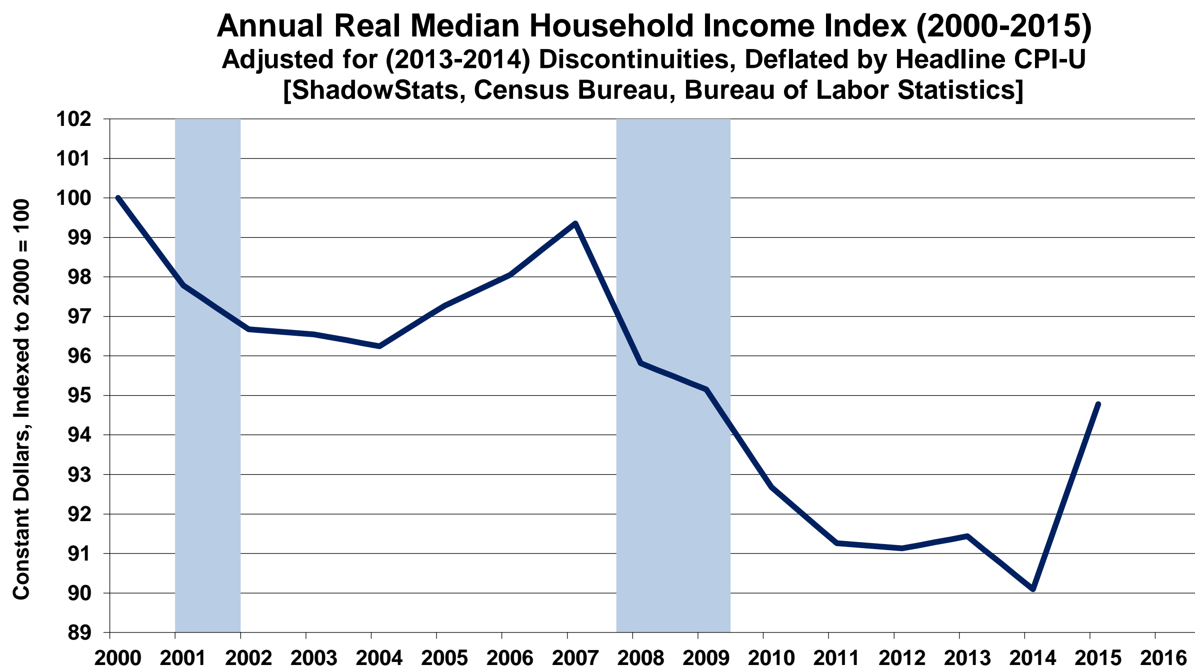
Graph 1: Monthly Real Median Household Income through August 2016



Differences in the Monthly versus Annual Median Household Income. The general pattern of relative historical weakness also has been seen in the headline reporting of the annual Census numbers, shown in *Graph 2*, with 2014 real annual median household income having hit a ten-year low, and with the new, historically consistent 2015 annual number still holding below that seen when the collapsing economy hit its purported trough in 2009. 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.

Graph 2: Annual Real Median Household Income through 2015, Discontinuities Removed



Consumer Confidence, Sentiment and Credit. Beyond the real median household income data discussed in the prior section, the detail here incorporates the latest measures of Consumer Confidence and Sentiment (*Graphs 3* to *5*), and the Federal Reserve's second-quarter 2016 estimate of real household credit market debt outstanding (*Graph 6*). *Graphs 7* to *9* cover the recently-released Federal Reserve estimate of August 2016 nominal consumer credit outstanding, including graphs of inflation-adjusted credit and annual growth in same.

The respective September and early-October 2016 readings for the Conference Board's Consumer-Confidence and University of Michigan's Consumer-Sentiment measures are reflected in *Graphs 3* to *5*, where both confidence and sentiment rose in September, with the early-October sentiment number plunging sharply in this morning's (October 14th) release, possibly reflecting concerns as to the direction of the presidential race.

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph 3*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph 4*) jumped and eased in their respective August readings, but both measures rose in September, but with the early-October Sentiment measure dropping sharply. The three-month moving averages in both series continued to hold below their respective March/February 2015 near-term peaks.

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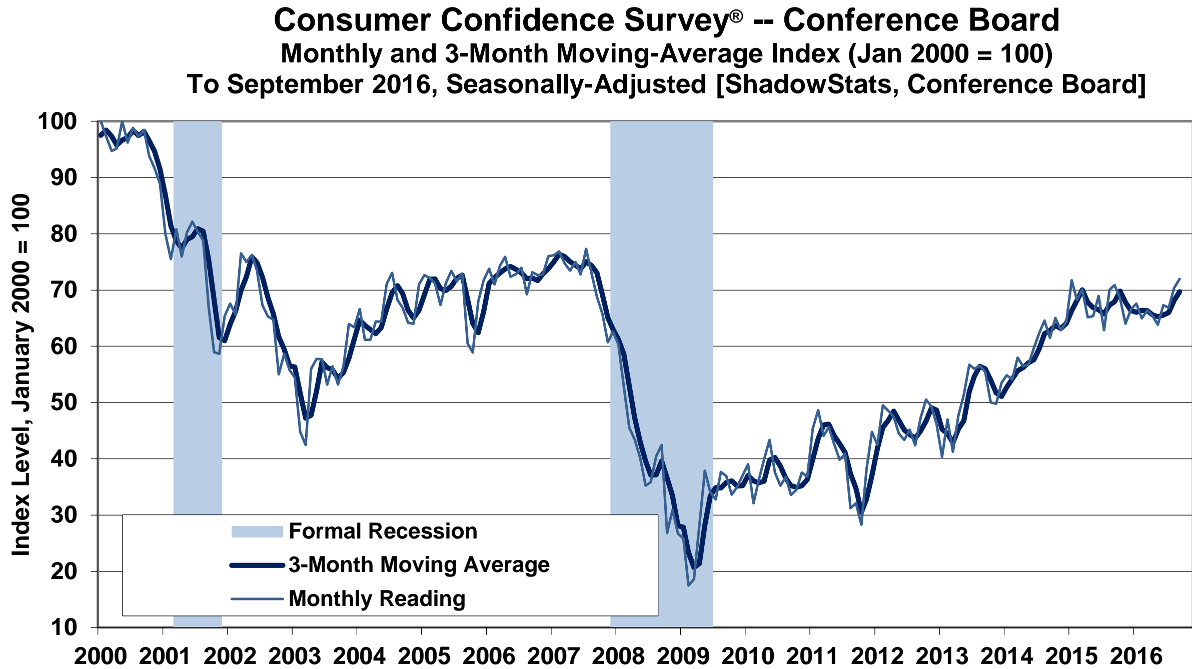
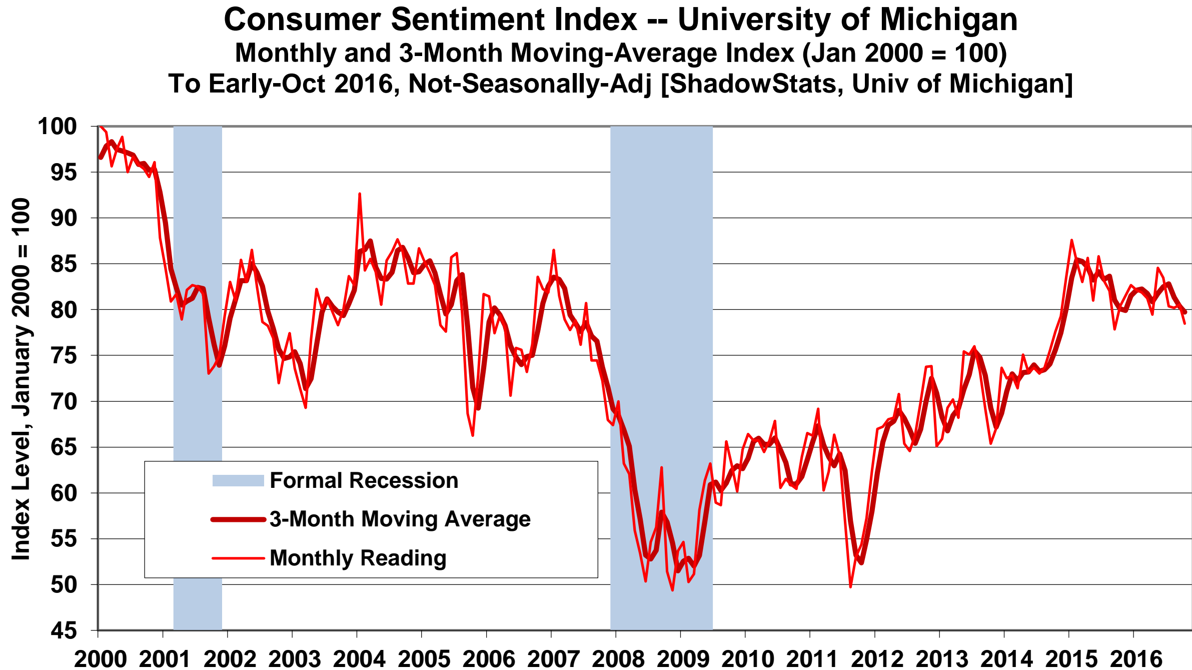
Graph 3: Consumer Confidence to September 2016



Graph 4: Consumer Sentiment to Early-October 2016



Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs 3* to *5* 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.

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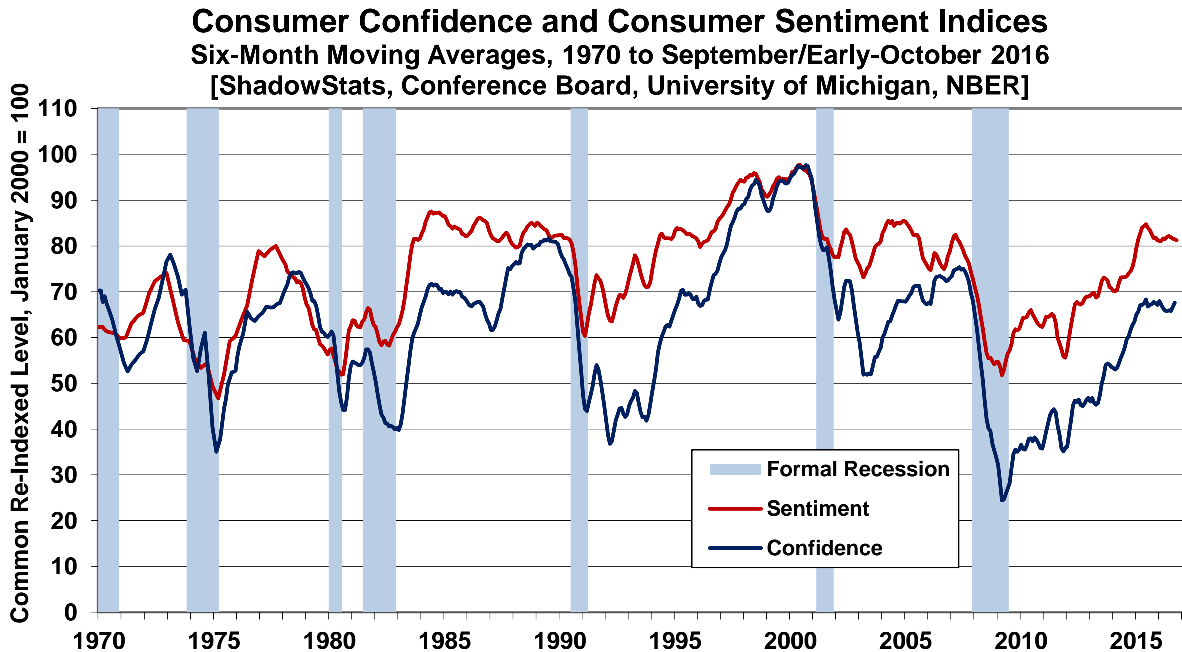
Both series also have continued to hold off near-term peaks, as smoothed for six-month moving-average readings (*Graph 5*), with both measures down from their June 2015 near-term highs.

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, unstable and uncertain headline financial and economic reporting and shifting political developments at hand and ahead, successive negative hits to both the confidence and sentiment readings remain increasingly likely in the months ahead, primarily from the faltering economy.

Graph 5: Comparative Confidence and Sentiment (6-Month Moving Averages) since 1970



Smoothed for irregular, short-term volatility, the two series remain at levels seen typically in recessions. Suggested in *Graph 5*—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 as suggested in 2014, and for second-and third-quarter 2015, by headline GDP growth.

The final four graphs address consumer borrowing. Debt expansion can help make up for a shortfall in income growth. Shown in *Graph 6* 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 through second-quarter 2016 (published September 16th). Household Sector, Real Credit Market Debt Outstanding in the second-quarter of 2016 had declined by 12.6% (-12.6%) from its pre-recession peak in third-quarter 2007.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly 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.

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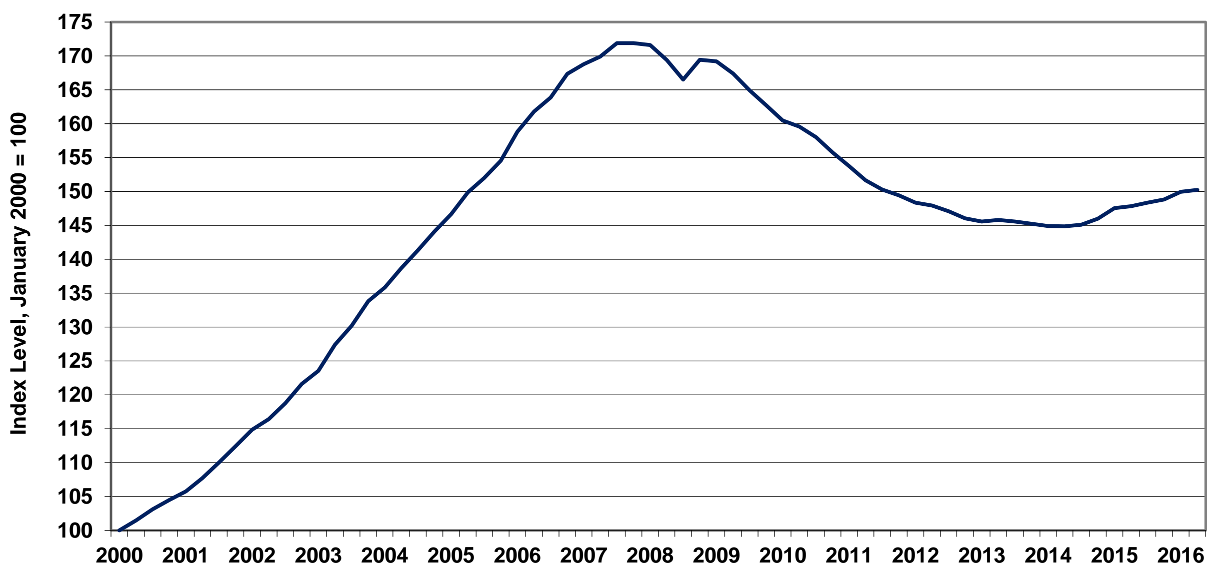
The slight upturn seen in the series through 2015 and into first-half 2106, as also seen in the patterns of the real monthly median household income survey, was due primarily to gasoline-price-driven, negative CPI inflation, which had continued impact on the system through the second quarter. Current activity has also reflected surging student loans, as shown in *Graphs 7* to *9*.

Graph 6: Household Sector, Real Credit Market Debt Outstanding through Second-Quarter 2016



Shown through August 2016 reporting, *Graph 7* of monthly Consumer Credit Outstanding is a subcomponent of *Graph 6* on real Household Sector debt, but *Graph 7* is not adjusted for inflation. Graphs of real activity for Consumer Credit Outstanding, however, are shown both in terms of level (Graph *8*) and in terms of year-to-year change (*Graph 9*).

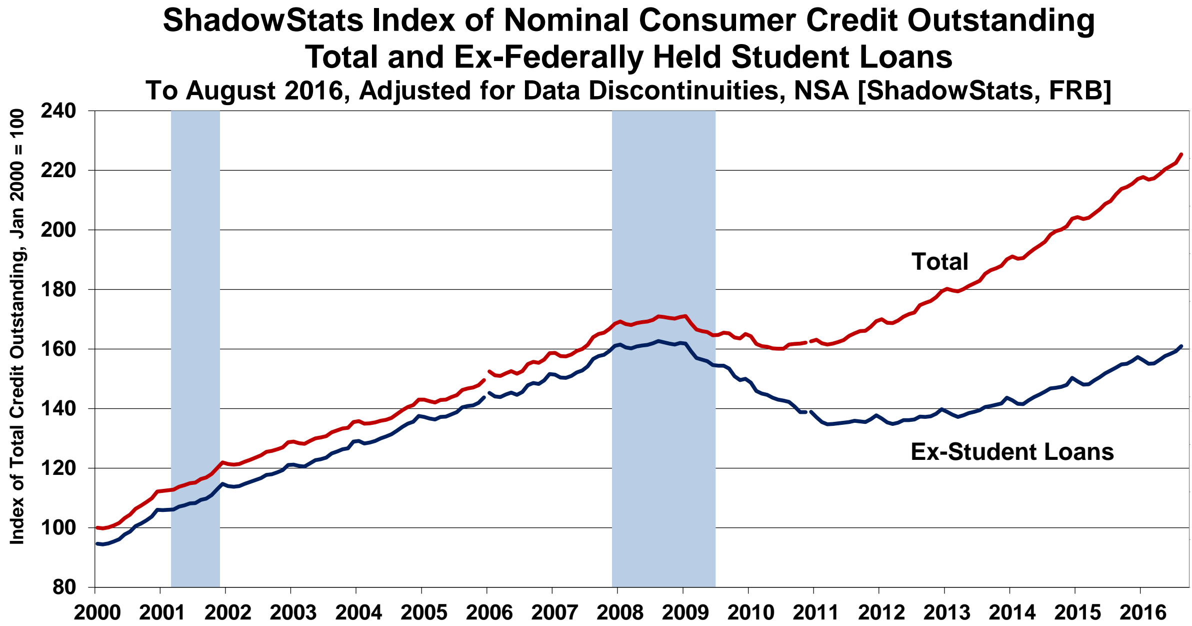
Post-2008 Panic, outstanding consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption or housing or real retail sales growth.

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 the monthly levels reflecting some irregular, unadjusted seasonal dips or jumps.

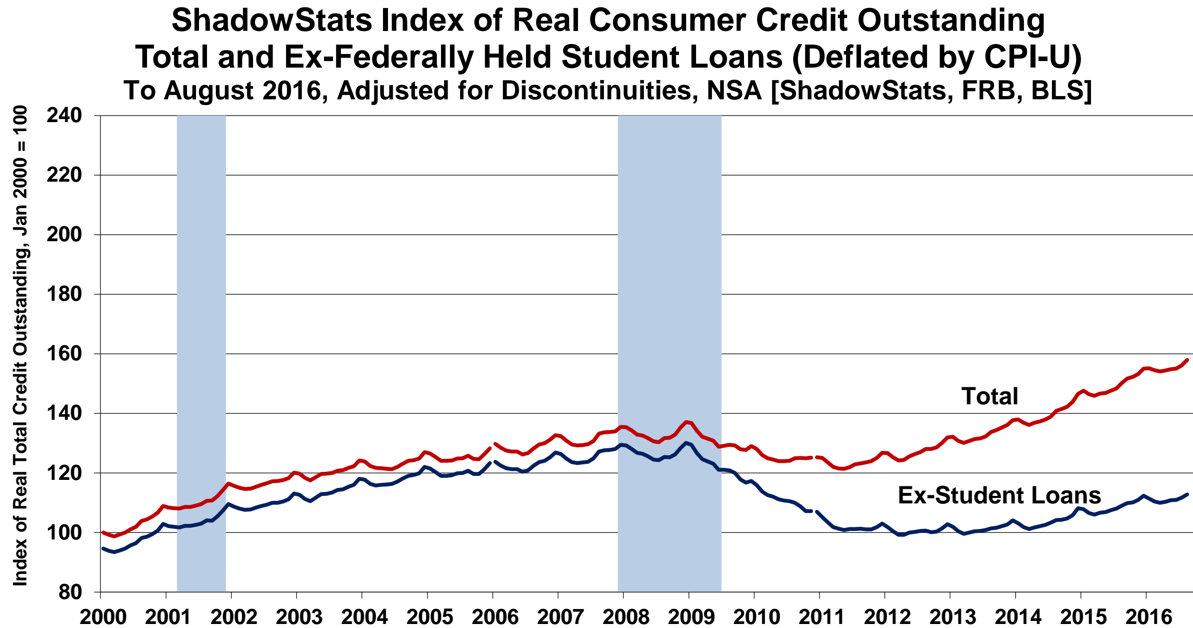
Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Adjusted for discontinuities and inflation, ex-student loans, August 2016 consumer credit outstanding is down from its December 2007 pre-recession peak by 12.9% (-12.9%).

Year-to-year growth in *Graph 9* tends to resolve most of the monthly distortions found in not seasonally-adjusted data.

Graph 7: Nominal Consumer Credit Outstanding through August 2016



Graph 8: Real Consumer Credit Outstanding through August 2016



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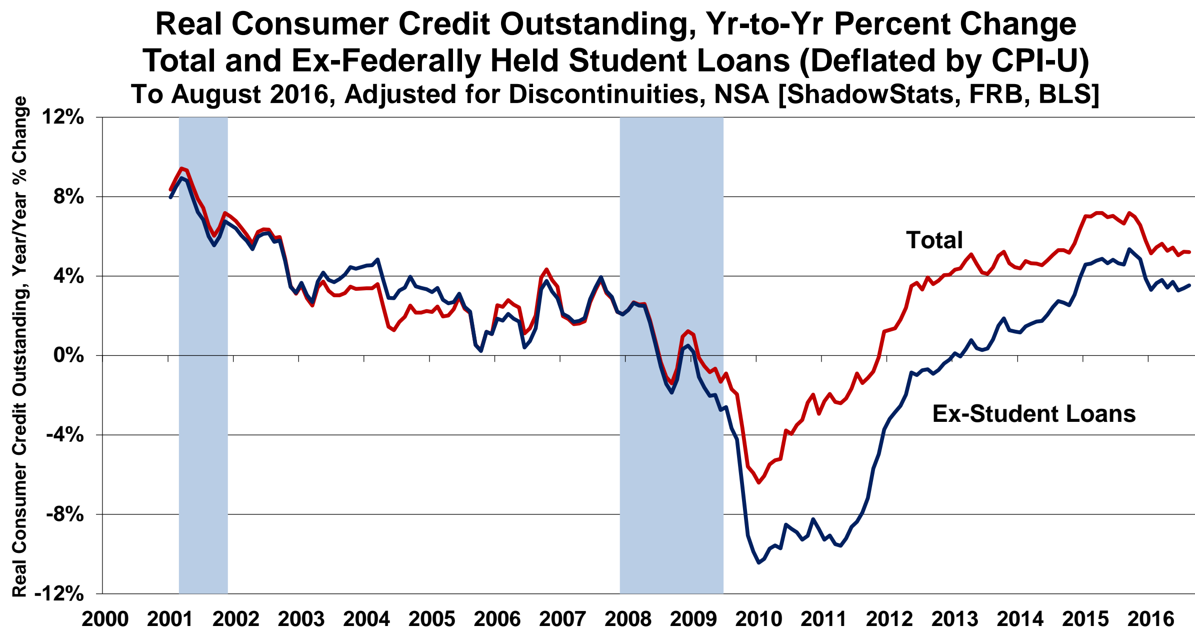
Graph 9: Year-to-Year Percent Change, Real Consumer Credit Outstanding through August 2016



[The **Reporting Detail** *section contains additional analysis and graphs.]*

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REPORTING DETAIL

NOMINAL RETAIL SALES (September 2016)

Boosted by Rising Prices and Seasonal-Adjustment Inconsistencies September Sales Rose by 0.62%. Once again, **t**he shifting of concurrent seasonal adjustment factors in the latest headline detail upped the relative growth of September 2016 nominal retail sales, versus the published historical data that were not revised on a consistent basis. Net of that, the headline nominal retail sales gain would have been about 0.45%, which could have been fully accounted for (most likely largely accounted for) by rising prices, as will be seen in the headline September CPI-U inflation, due for release on October 18th. Where the seasonal-factor distortions have been a major, distorting factor in headline month-to-month detail of the last several years, they had provided minimal distortions since the April 2016 benchmarking of the retail

series, up until last month's headline release of August 2016 sales (see *Seasonal-Factor Distortions Generated Artificially-Stronger Headline September Sales ...*).

Nominal (Not-Adjusted-for-Inflation) Retail Sales—September 2016. In the context of upside revisions to previously-reported levels of retail sales in July and August 2016, the Census Bureau reported today (October 14th) that headline nominal Retail Sales for September 2016 rose by 0.6% month-to-month. At the second decimal point, September activity rose by 0.62%, versus a positively revised 0.19% (-0.19%) [previously down by 0.29% (-0.29%)] monthly decline in August, and against a minimally-revised gain of 0.10% [previously up by 0.06%, initially down by 0.04% (-0.04%)] in July 2016.

That seasonally-adjusted, headline September gain of 0.62% +/- 0.59% was marginally, statistically significant (this and all other confidence intervals are expressed at the 95% level). Net of prior-period revisions, September sales rose by 0.77%.

The revised headline August 2016 retail sales decline of 0.19% (-0.19%) +/- 0.23%, was statistically-insignificant.

Year-to-Year Annual Change. September 2016 nominal year-to-year change showed a statistically-significant increase of 2.67% +/- 0.82%, versus an upwardly-revised annual gain of 2.06% [previously 1.90%] in August 2016, and a minimally-revised 2.40% [previously 2.36%, initially 2.26%] annual gain in July 2016.

September 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 September gain of 1.88% per the Department of Energy in gasoline prices], seasonally-adjusted monthly grocery-store sales gained 0.19% in September 2016, with gasoline-station sales up by 2.41% 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—are estimated using two approaches:

<u>Version I:</u> September 2016 versus August 2016 seasonally-adjusted retail sales series—net of total grocery store and gasoline-station sales—rose by 0.52%, versus the official headline aggregate sales gain of 0.62%.

<u>Version II:</u> September 2016 versus August 2016 seasonally-adjusted retail sales series—net of the monthly change in the level of revenues for grocery stores and gas stations—rose by 0.43%, versus the official headline aggregate sales gain of 0.62%.

Real Retail Sales (September 2016). Coincident with the release of the September CPI on Tuesday, October 18th, headline nominal September Retail Sales will be adjusted for inflation and recast as real Retail Sales. Such will be covered in *Commentary No. 841* of that date (see discussion in the *Week Ahead* section).

Where headline September CPI-U likely will show a moderate monthly increase, there is a parallel chance for the monthly real change in September retail sales to weaken sharply from today's headline nominal

monthly gain of 0.62%. The pace of annual CPI-U inflation also should increase, generating an ongoing, intense recession signal from the historically low-level, annual real Retail Sales growth.

Structural Liquidity Issues Continue to Impair Retail Sales. An extreme consumer-liquidity bind continues to constrain retail sales activity, as updated in the *Liquidity Conditions* section of today's *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 the income shortfall, the U.S. consumer remains unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise. That circumstance—in the last nine-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.

As official consumer inflation continues its upside climb in the year ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze, these data should continue trending meaningfully lower, in what should gain recognition in the very near future as a formal "new" recession.

Seasonal-Factor Distortions Generated Artificially-Stronger Headline September Sales, and Other Reporting Instabilities. Without inconsistent shifting in seasonal-adjustment factors, the September 2016 headline change in nominal retail sales would have been a gain of about 0.45%, instead of the headline 0.62%. Headline detail in this series is subject to a pattern of distorted revisions, unique to the inconsistent reporting of the government's concurrent-seasonal-factor-adjustment process, as seen regularly in reporting of retail sales in recent years. The usual seasonal-factor games had been reasonably inactive in the reporting period since the April 2016 benchmarking of this series, but they came back into play with the headline August 2016 reporting.

Where the headline data reflect new seasonal-factor adjustments, the presumed comparable historical series do not. The only "comparable" headline historical detail published with today's headline September 2016 sales data were the sales levels for the prior two months of August 2016 and July 2016, and the year-ago months of September and August 2015.

Revisions to the year-ago periods are tip-offs as to how the current, headline month's seasonal factors have been altered. The headline month-to-month contraction gain of 0.62% in September 2016, actually reflected a positive boost of 0.17% [a revised reduction of 0.02% (-0.02%) in August 2015 sales, and an upside revision to September 2015 sales of 0.15%]. Those changes reflect the implied seasonal factor changes for the same months in 2016. Net of those distortions, the headline gain in September 2016 sales would have about 0.45%, not much above likely inflation.

In today's 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 headline September 2016 detail. These revisions were not due to the availability of any new historical data back in August or September 2016, but rather due to just the inconsistent shifts in the published versus unpublished seasonal adjustments. Accordingly, shifting patterns of relative quarterly growth in just the third- and fourth-quarter 2015 (as will be seen in the October 18th real retail sales reporting) also are due solely to the "inconsistent" revision to those numbers.

Given Census Bureau reporting procedures, the headline detail is not comparable with nearly all 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 the Census Bureau's not publishing related, fully-consistent historical data each month.

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.

PRODUCER PRICE INDEX—PPI (August 2016)

Headline September PPI Goods Inflation Rose by 0.65%; Construction Inflation and the Profit Margins in the Dominant Services Sector Both Rose by 0.09%; with Aggregate PPI Inflation up by 0.27%. The headline month-to-month gain of 0.3% in September 2016 PPI generally was reflected neither in real world activity, nor in common experience. The same generally can be said for most of its subcomponents.

Beyond the broad issues with general inflation measurement (see *Public Commentary on Inflation Measurement*), the bulk of the PPI is covered by the "services" sector, where inflation is determined by shifting profit margins. Discussed in the *Inflation That Is More Theoretical than Real World* section, profit-margin inflation estimates generally are handled in a manner counter-intuitive to the more-traditional measurement of inflation in goods and services, otherwise calculated as a measurement of change in prices. Accordingly, the headline detail here increasingly has a limited relationship to real-world activity.

The conceptual differences between goods inflation and services profit margins do not blend well and are not merged easily or meaningfully in the current version of the PPI. While, the dual measures are more meaningfully viewed independently than as the hybrid measure of the headline Producer Price Index Final Demand—ShadowStats separates the analyses of those sectors in by sub-category—the aggregate headline series here also is reviewed and covered within the headline reporting conventions of the Bureau of Labor Statistics (BLS).

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.

September 2016 Headline PPI Detail. The Bureau of Labor Statistics (BLS) reported this morning, October 14th, that the seasonally-adjusted, month-to-month, headline Producer Price Index (PPI) Final Demand inflation for September 2016 rose by 0.27%, versus an "unchanged" reading at 0.00% in August. The impact of seasonal adjustments on the headline PPI reporting was broadly positive across most subcategories, while the unadjusted monthly September measure showed a gain of 0.18%.

On a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year PPI Final Demand inflation in September 2016 rose to 0.73%, following an annual "unchanged" at 0.00% rate in August 2016. Annual inflation turned more-positive or less-negative in most subcategories.

For the three major subcategories of September 2016 Final Demand PPI, headline monthly Goods inflation rose by 0.65%, Services inflation gained by 0.09% and Construction inflation rose by 0.09%.

Final Demand Goods (Weighted at 33.63% of the Aggregate Index). Running somewhat in parallel with the old Finished Goods PPI series, headline month-to-month Final Demand Goods inflation in September 2016 rose by 0.65%, having declined by 0.37% (-0.37%) in August. There was positive impact on the aggregate goods headline reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, September Final Demand Goods inflation rose by 0.46%.

Unadjusted, year-to-year goods inflation in September 2016 declined by a narrower 0.37% (-0.37%), having declined by 2.09% (-2.09%) in August 2016.

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

- "Foods" inflation (weighted at 5.56% of the total index) rose month-to-month in September 2016 by 0.53%, having declined in August by 1.56% (-1.56%). Seasonal adjustments were positive for the September headline change, which was up by 0.26% unadjusted. Unadjusted and year-to-year, annual August 2016 foods inflation dropped by 3.46 (-3.46%), having declined in August 2016 by 4.36% (-4.36%).
- "Energy" inflation (weighted at 5.24% of the total index) rose by 2.54% month-to-month in September 2016—the dominant inflationary component to September PPI headline detail—having declined by 0.77% (-0.77%) in August. Seasonal adjustments here were positive, with unadjusted monthly energy inflation having gained 1.83%. Unadjusted and year-to-year, the September 2016 annual contraction in energy prices narrowed sharply to 2.47% (-2.47%), from 9.98% (-9.98%) in August 2016.

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- "Less foods and energy" ("Core" goods) monthly inflation (weighted at 22.83% of the total index) rose by 0.27% in September 2016, versus a gain of 0.09% in August 2016. Seasonal adjustments were positive for monthly core inflation, with an unadjusted monthly gain of 0.09%. Unadjusted and year-to-year, September 2016 was up by 0.91%, versus a gain of 0.64% in August 2016.

Final Demand Services (Weighted at 64.28% of the Aggregate Index). Headline monthly Final Demand Services inflation gained 0.09% in September 2016, also having gained 0.09% in August. The overall seasonal-adjustment impact on headline September services inflation was positive, with an unadjusted monthly "unchanged" reading at 0.00%. Year-to-year, unadjusted September 2016 services rose by 1.36%, following a 1.18% annual gain in August 2016.

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

- "Services less trade, transportation and warehousing" inflation, or the "Other" category (weighted at 38.96% of the total index), rose by 0.18% in September 2016, versus a 0.45% gain in August. Seasonal-adjustment impact on the adjusted September detail was positive, where the unadjusted monthly reading was a gain of 0.09%. Unadjusted and year-to-year, September 2016 "other" services inflation was 2.20%, versus 1.83% in August 2016.
- "Transportation and warehousing" inflation (weighted at 4.99% of the total index) rose month-to-month in September 2016 by 1.33%, having declined by 0.35% (-0.35%) in August. Seasonal adjustments were positive for the headline September reading, where the unadjusted monthly number had been a decline of 0.09% (-0.09%). Unadjusted and year-to-year, September 2016 transportation inflation fell by 0.53% (-0.53%), having declined by 1.82% (-1.82%) in August 2016.
- "Trade" inflation (weighted at 20.34% of the total index) declined month-to-month in September 2016 by 0.36% (-0.36%), having declined 0.62% (-0.62%) in August. Seasonal adjustments had a negative impact here, where the unadjusted monthly change was a decline of 0.27% (-0.27%). Unadjusted and year-to-year, September 2016 trade inflation was "unchanged" at 0.00%, versus an annual gain of 0.63% in August 2016.

Final Demand Construction (Weighted at 2.09% of the Aggregate Index). Although a fully self-contained subsection of the Final Demand PPI, Final Demand Construction inflation receives no formal headline coverage. Month-to-month construction inflation rose by 0.09% in September 2016, having been "unchanged" at 0.00% in August 2016. The impact of seasonal factors on the September reading was neutral, where the unadjusted monthly change also up by 0.09%. The issues here are a combination of monthly headline cost changes along with a quarterly estimate of contractor profit-margin changes. The latter circumstance was addressed in *Commentary No. 829* of September 2nd.

On an unadjusted basis, year-to-year construction inflation rose by 0.80% in September 2016, versus 0.71% in August 2016. At present, private surveys are showing much higher construction-related inflation than is reported by the government, by an order of magnitude of a couple of hundred basis points, such as reflected in the privately-published Building Cost and Construction Cost Indices [Dodge Data and Analytics (McGraw Hill) *Engineering News-Record*] and in construction-related price deflators in the National Income Accounts, such as the Gross Domestic Product (GDP).

Discussed in *Commentary No. 829*, ShadowStats has constructed a Composite Construction Deflator (CCD) that now is used by ShadowStats in deflating the Census Bureau's monthly estimates of Construction Spending Put in Place in the United States.

PPI-Inflation Impact on Pending Reporting of New Orders for Durable Goods. As to the upcoming reporting of September 2016 new orders for durable goods, monthly inflation (reported only on a not-seasonally-adjusted basis) for new orders for manufactured durable goods declined by 0.06% (-0.06%) in September 2016, versus an "unchanged" 0.00% reading in August 2016 and a monthly gain of 0.18% in July 2016. Year-to-year annual inflation rose to 0.12% in September 2016, versus a 0.06% annual gain in August 2016 and an annual decline of 0.18% (-0.18%) in July 2016. September 2016 durable goods orders will be reported on October 27th and covered in ShadowStats *Commentary No. 843* of that date.

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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 continuing talk by some FOMC members of a near-term rate hike, an ongoing and deepening domestic economic downturn promises intensified stress on systemic liquidity. That circumstance ultimately dooms the U.S. central bank to an intensified quantitative easing.

September employment and unemployment circumstances were reviewed in *Commentary No. 838*. Fed-policy retrenchment should remain very much alive, shifting towards that renewed quantitative easing, in the post-election environment, as discussed in today's *Opening Comments* and those of *Commentary No. 837* and *Commentary No. 835*, which respectively also reviewed the August trade deficit and construction spending, and August durable goods orders, home-sales activity and the most-recent FOMC inaction.

Commentary No. 836 updated the latest GDP reporting (third-estimate of second-quarter 2016), as well as provided an economic reality check on some harder, less-theoretical and more-independent (non-government) economic numbers.

Commentary No. 834 detailed August activity in residential construction units (*i.e.*, housing starts), while underlying consumer liquidity and household income conditions were updated fully in *Commentary No. 833*, along with continuing discussion of FOMC options and the latest consumer inflation detail.

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, such as seen in *Commentary No. 832*. Earlier FOMC considerations also were covered in *Commentary No. 831*, while the initial payroll benchmark revision for 2016 was discussed in *Commentary No. 830*.

Broad economic and systemic details detail otherwise have been reviewed recently 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, had put a temporary flutter into those market movements, placing some Fed-desired support under the U.S. currency. The downside spike to gold prices on October was considered in *Commentary No. 837*.

Again, though, the fundamental liquidity issues facing the Fed remain dominated by the impact of perpetual U.S. economic non-recovery and a renewed, intensifying downturn. Even if the Fed should raise rates in the near future, ongoing negative economic pressures still will mount, forcing the U.S. central bank back into a position of having to support domestic financial- and banking-system liquidity needs. Effectively, the Fed will have no way out other than to return to some form of expanded quantitative easing, post-election.

Temporary jawboning aside, market reactions increasingly should reflect a renewed sense of Federal Reserve impotence in the wake of the latest no rate hike, with bleak longer-term implications for the U.S. dollar. While anything is possible, Fed tightening prior to the election appears now to be out of consideration, with market expectations for a rate hike now centering on December 2016. Yet, renewed quantitative easing increasingly should become the target of post-election speculation, as the deepening recession continues to unfold.

Rapidly weakening, regular monthly economic reporting should continue and 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. August CPI was boosted by "core" inflation, but the September and October CPIs appear set for gasoline-related spikes (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 (September 2016). The Federal Reserve Board will publish its estimate of September 2016 Industrial Production activity on Monday, October 17th, with coverage in *Commentary No. 840* of that date. Headline reporting likely will continue in monthly contraction (following a decline in August and gains in July and June), along with continued and uninterrupted annual contractions (the 13th straight month). While consensus expectations likely will be on the plus-side of flat, a headline monthly production drop remains likely, reflecting weaker manufacturing. That also should be in the context of downside revisions within the last six months of data.

Consumer Price Index—CPI (September 2016). The Bureau of Labor Statistics (BLS) will release the September 2016 CPI on Tuesday, October 18th, which will be covered in *Commentary No. 841* of that date. The headline September CPI-U is a fair bet to show its strongest month-to-month increase this year,

perhaps up by 0.3%, reflecting rising gasoline prices exacerbated by positive seasonal adjustments to same. Headline year-to-year annual inflation for September 2016 likely will increase to around 1.4% or higher, versus 1.1% in August 2016. Early indications for the October CPI suggest a similar inflation rate increases for that month's headline details.

2017 Social Security Annual COLA Adjustment Is Likely to Be About 0.3%. The headline September CPI-W for third-quarter 2016 will set the annual cost of living adjustment (COLA) for Social Security recipients in 2017. Having to overcome an annual inflation deficit as of third-quarter 2015, which had set the 2016 COLA adjustment to zero, the adjustment for 2017 likely will be about 0.3%.

Positive Monthly Inflation Impact from Gasoline Prices. Average gasoline prices rose in September 2016, up by 1.88% for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). Where BLS seasonal adjustments to gasoline prices in September also are on the plus-side, they should exacerbate the unadjusted price increase in gasoline. As a result, seasonally-adjusted gasoline prices should contribute roughly a positive 0.15% 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 0.3%, plus or minus, is a reasonable expectation.

Annual Inflation Rate. Noted in *Commentary No. 833*, year-to-year, CPI-U inflation would increase or decrease in the headline September 2016 reporting, dependent on the seasonally-adjusted month-to-month change, versus the adjusted, headline monthly decline of 0.09% (-0.09%) in September 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 September 2016, the difference in September's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the August 2016 annual inflation rate of 1.06%. For example, a seasonally-adjusted, gain of 0.3% in the monthly September 2016 CPI-U, would move the annual CPI-U inflation rate for September 2016 up to about 1.4% or 1.5%, plus-or-minus, depending on rounding.

Real Retail Sales (September 2016). The Census Bureau released September 2016 nominal (not-adjusted-for-inflation) Retail Sales today (October 14th), showing a headline monthly gain of 0.62%, with an annual gain of 2.67%. Those gains were boosted heavily by rising inflation, where they will be adjusted for the headline September 2016 CPI-U inflation detail in *Commentary No. 841* of October 18th. With a likely solid increase in the monthly CPI-U, there is a parallel chance for real sales growth in September to be weaker than the headline nominal sales activity. Where the pace of annual CPI-U inflation in September also should increase sharply from August, that should generate an intense and continuing recession signal in the historically low-level, annual real Retail Sales growth.

Underlying consumer liquidity and household income conditions are updated fully in today's *Opening Comments*; liquidity remains 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.

Residential Construction—Housing Starts (September 2016). The Census Bureau will release September 2016 residential construction detail, including Housing Starts, on Wednesday, October 19th,

which will be covered in *Commentary No. 842* 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. Wherever consensus estimates settle—most frequently on the upside—they are virtually certain also to be well shy of any meaningful, statistically-significant change.

Irrespective of the generally meaningless headline detail, the broad pattern of housing starts should remain consistent with the low-level, stagnant activity, seen at present, with August 2016 activity having been down by 50% (-50%) from the pre-recession high of the series. Such is particularly evident with the headline detail viewed in the context of a six-month moving average. Again, this series remains 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 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 the headline monthly growth rates rarely come close to being statistically significant.

Discussed in today's *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 liquidity-strapped U.S. consumer is unable to sustain growth in broad economic activity, including sustainable growth in demand for residential construction.

Please see the *Special Note to Subscribers* at the beginning of this document.

PLANNED UPDATES: Comprehensive *Special Report* and ShadowStats Website. ShadowStats is updating 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* will follow the November U.S. presidential election, as discussed in the *Special Note to Subscribers* at the beginning of this document. It 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).

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We also will introduce, in conjunction with the *Special Report*, a section with links to books and articles that we and/or our readers have found of particular interest and substance. Many thanks to those who already have submitted recommendations of specific books and publications. 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.