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

COMMENTARY NUMBER 841
CPI, Real Retail Sales and Earnings, Freight Index, Election, FOMC, Dollar and Gold

October 18, 2016

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Main Street U.S.A. Is Not Happy; That Is Bad News for Establishment Political Candidates and for the Financial Markets and the U.S. Dollar

Social Security COLA Shenanigans at the BLS?

Extraordinarily-Unusual Corrections to Unadjusted CPI Data Moved the Unrounded COLA Calculation from 0.351% to 0.348%; The Difference Was a 2017 COLA at 0.3%, Instead of 0.4%

September 2016 Annual Inflation Firmed by 0.4% to 0.5%, with CPI-U at 1.5%, CPI-W at 1.2% and ShadowStats at 9.1%

Versus a Nominal Monthly Rebound of 0.6% in September, Real Retail Sales Gained 0.3%, Failing to Recover July Levels, with a Continuing, Intense Low-Annual-Growth Recession Signal

Down in September, Real Earnings Have Declined in Five of the Last Six Months

September Freight Index Continued in Ongoing Economic Tumble

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PLEASE NOTE: The next regular Commentary, *scheduled for tomorrow, Wednesday, October 19th, will cover September Housing Starts.*

[This version of No. 841 *has had minor language clean up, for readability, no changes of substance.] Please call at (707) 763-5786 if you have questions or would like to discuss current issues or otherwise. Best wishes to all — John Williams*

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SPECIAL COMMENTS

ECONOMIC REALITY, THE ELECTION, FOMC, U.S. DOLLAR AND GOLD

Where Main Street U.S.A. Continues to Suffer Major Economic Stress in 2016, Consider that Pocketbook Issues Generally Dominate Elections. Underlying economic reality remains the most important, fundamental driving force in the current presidential race, a factor that suggests a probable outcome much closer than advertised, if not reversed from what is being touted in most national polls. Implications for the financial markets are significant, with the underlying economic issues also still likely to push the FOMC into an expanded quantitative easing. These combined circumstances could offer a doubly-hard hit on the U.S. dollar, along with increased flight-to-safety in the precious metals.

Reviewing the *Opening Comments* of *Commentary No. 839*, in every presidential race since 1932—the earliest year with available, consistent numbers—the incumbent party has lost the White House whenever inflation-adjusted real disposable income was below 2.9%. As of second-quarter 2016, that annual growth rate stood at 1.8%. Pocketbook issues are basic, a matter of financial survival for people and reflective of concerns, which for practical reasons, usually are not put aside lightly. With major financial concerns at stake, that includes issues such as whether a President plays around or has mistresses. Testosterone levels usually run very high for presidential candidates and incumbent presidents, irrespective of party or other background.

The U.S. political system has been dominated by globalist (current establishment) interests since late-1980s, with the North American Free Trade Agreement (NAFTA) an early accomplishment for those looking for a political union of the Americas. That went into effect at the beginning of 1994. Similar efforts at a political union of Europe had resulted in the Maastricht Treaty in 1993.

Theoretical, mutual trade benefits for countries opening unfettered trade with each other are based on both parties being at full employment, a circumstance rarely in hand. Under such conditions, trade flows to the low-cost producer. U.S. trade policies have had the effect of re-distributing U.S. productive capacity, employment, assets and wealth offshore, in recent decades.

While many have profited from those circumstances, the nation, on average, has not. The result for Main Street U.S.A. has been the loss of jobs and income. Other than for short-term monthly variability, the labor-force participation rate is at its lowest level since before 1994, when the employment and unemployment measures were recast so as to minimize the negative headline impact from NAFTA on domestic labor conditions (see *Commentary No. 838*). As seen later here in *Graph 10*, real average weekly earnings of production workers held below their peak levels in the early-1970s, once the U.S. trade deficit began to explode. As discussed in *Commentary No. 833* (see *Graph 1* on page *4* there), real median household income in 2015 was below levels seen in the late-1980s and early-1970s. These are indications of pocketbook-issue frustrations that have turned the 2016-presidential election on its head.

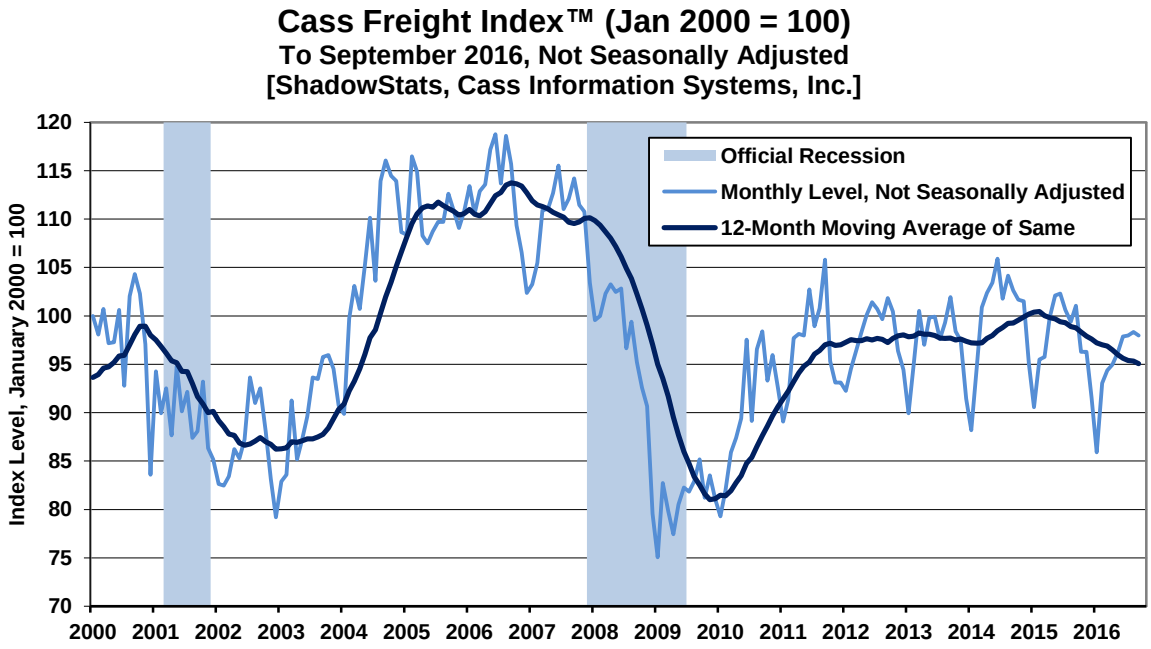
These concerns also may be reflected in recent Consumer Sentiment surveys (see the *Liquidity Comments* in *Commentary No. 839*). Early-month surveys in June and October 2016, showed a respective surge and plunge. The surge followed Donald Trump being declared the presumptive Republican nominee; the plunge followed the release of the old tape of inappropriate comments, which had immediate negative impact in his polling numbers. The reaction in the gold markets was to buy into early-June and to sell into early October. Where such could reflect shifting establishment concerns, the June buying also reflected Brexit.

The basis of the enthusiasm for Mr. Trump on Main Street is due to his being the only presidential candidate in recent years, who has promised to address the underlying economic policies that have destroyed the health and prosperity of U.S. economic activity in recent decades.

Mr. Trump has a very difficult road ahead of him in the next four weeks, as traditional party alignments resettle, and as many in the national media show an unprecedented lack of neutrality. If Mr. Trump should win, financial-market reaction likely would mirror the Brexit circumstance, with some flight of establishment-held assets, including the selling of stocks, the domestic currency and the buying of precious metals, particularly gold.

As will be discussed in *Special Comments* next week, meaningful changes at the Fed would be difficult for Mr. Trump to implement, at least until Fed Chair Yellen's term expires in 2018. If Secretary Clinton prevails, her Fed largely is in place. Buying more time for financial-system survival has become increasingly difficult. My betting remains that deteriorating economic circumstances will threaten systemic liquidity enough to push the Federal Reserve back into an expanded quantitative easing mode, shortly after the election, certainly well before 2018 and irrespective of any near-term rate hike.

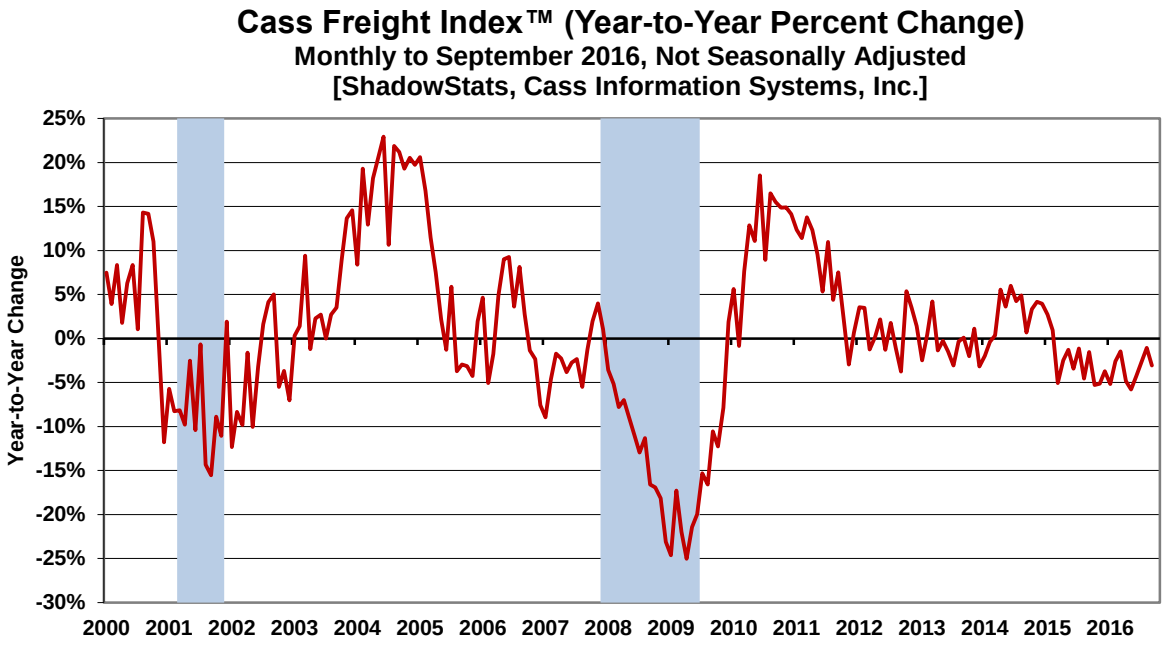
Graph 1: CASS Freight Index, Unadjusted Monthly and Trailing 12-Month Average, through September 2016



September 2016 Freight Index Confirmed, Once Again, a Deepening Economic Contraction and Non-Recovery. Patterns of non-recovery in the general economy and renewed downturn in business activity were reconfirmed in the headline detail of the September 2016 Cass Freight Index™, published this afternoon, October 18th.

Beginning with *Commentary No. 782* (further background available there), ShadowStats published the graphic detail on the Cass Index, a measure of North American freight volume as calculated by, and used with the permission of Cass Information Systems, Inc. As background, freight activity is a basic, underlying indicator of commercial activity and broad GDP. Of the combined U.S. and Canadian (North American) GDP in 2014, roughly 91% was attributable to the United States.

Graph 2: CASS Freight Index, Year-to-Year Percent Change, Monthly through September 2016



The plot in *Graph 1* reflects the monthly numbers updated through September 2016. While adjusted for factors such as days in a month, the headline monthly detail is not adjusted for broad seasonality patterns, such as retailers stocking for the holiday shopping season. Accordingly, ShadowStats plots the series using a trailing twelve-month average, which tends to neutralize regular seasonal patterns over the period of a year, along with the unadjusted monthly detail plotted in the background. ShadowStats also has re-indexed the series to January 2000 = 100, so as to be consistent with other graphs used. The headline index published by Cass is based at January 1990 = 100. The patterns here somewhat resemble those in *Graph 2* of the "corrected" industrial production series seen in prior *Commentary No. 840*, and as seen in the smoothed, corrected real new orders for durable goods, ex-commercial aircraft in *Commentary No. 835* (*Graph 7*).

In *Commentary No. 838* (see pages 5 to 11 there), a variation on *Graph 1* was compared with various U.S. unemployment and economic measures. Shown in *Graph 1*, the trailing twelve-month average peaked in February 2015 and has been slowing since, with the twelve-month average to through September 2016

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down 5.4% (-5.4%) from that peak, and currently down 3.8% (-3.8%) from the year-ago September 2015 average.

Another approach to assessing not-seasonally-adjusted monthly detail is to look at year-to-year change by individual month, as plotted in *Graph 2*. The unadjusted monthly detail has been in continual year-to-year decline since March of 2015, down by an intensified 3.1% (-3.1%) year-to-year, as of September 2016, versus an annual decline of 1.1% (-1.1%) in August 2016.

In combination, *Graphs 1* and *2* are consistent with a pattern of economic collapse into 2009, low-level stagnation thereafter and renewed downturn effectively coincident with a "new" recession, which likely still will be timed from December 2014.

Markets Still Expect a Near-Term Interest-Rate Hike, Perhaps in December. Any interest rate hike out of the Federal Reserve's Federal Open Market Committee (FOMC) likely now will be post-election. With election issues out of the way, market expectations appear to be for some action at the December FOMC. Significant jawboning for a rate hike continues, but the economy will not cooperate, and systemic-liquidity issues likely will continue to frustrate the FOMC's rate-hike desires.

Irrespective of near-term Fed action or inaction on hiking rates, the U.S. economy is tanking, and it will continue to decline into the foreseeable future. That threatens banking- and financial-system liquidity. It is the systemic-liquidity concerns, not the economic news (still political cover for liquidity actions) that would force the Fed to fall back to its basic and expanded missions of propping the U.S. as well as global banking systems. That is the effect of the commitment that the Fed and the U.S. Treasury made in 2008, when they decided to save the banking system at any and all costs. The required action, again, would be to expand quantitative easing post-election, not to tighten monetary policy meaningfully.

Under those circumstances, unexpected economic weakness increasingly should trigger flight from the U.S. dollar, rallying prices in gold, silver and oil. The pattern of bad economic news and intensifying flight from the dollar should intensify sharply in the weeks and months ahead, once near-term FOMC waffling resettles and the downturn in U.S. economic activity intensifies anew.

The *ShadowStats* general outlook remains unchanged, but it continues to evolve with underlying circumstances. The U.S. economy remains in intensifying crisis, with no chance of near-term recovery. A U.S. dollar collapse looms as the Fed inches closer to a highly likely, renewed and expanded quantitative easing, post-election. The dollar collapse and related dumping of dollar-denominated assets should trigger the early stages of serious domestic inflation, with spiking commodity prices. Heavily bloated U.S. equity markets should suffer along with heavy flight from the U.S. dollar and related assets. Flight-to-safety will spike the dollar prices of store-of-wealth assets such as physical gold and silver, the ultimate hedges for those living in a U.S. dollar-denominated world.

The U.S. economy collapsed into 2009 and never fully recovered, holding in low-level stagnation until it began turning down anew in December 2014. Facing horrendous long-term solvency issues, the U.S. government currently is committed to total net obligations—including federal debt and the net-present value of unfunded liabilities—well in excess of $100 trillion dollars, at more than 160% of current global GDP and at more than 650% of U.S. GDP.

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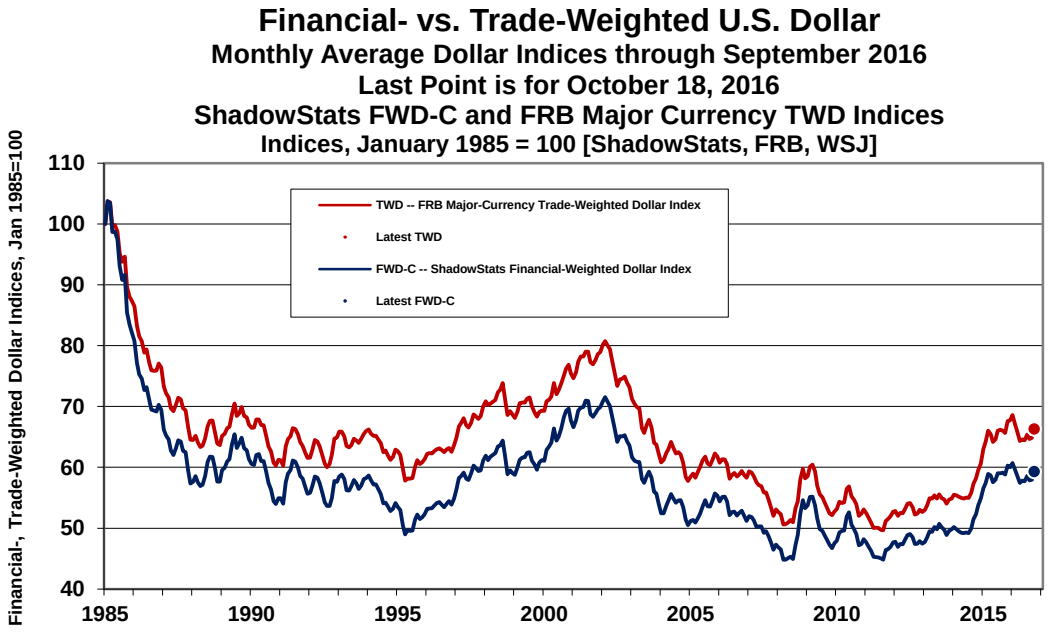
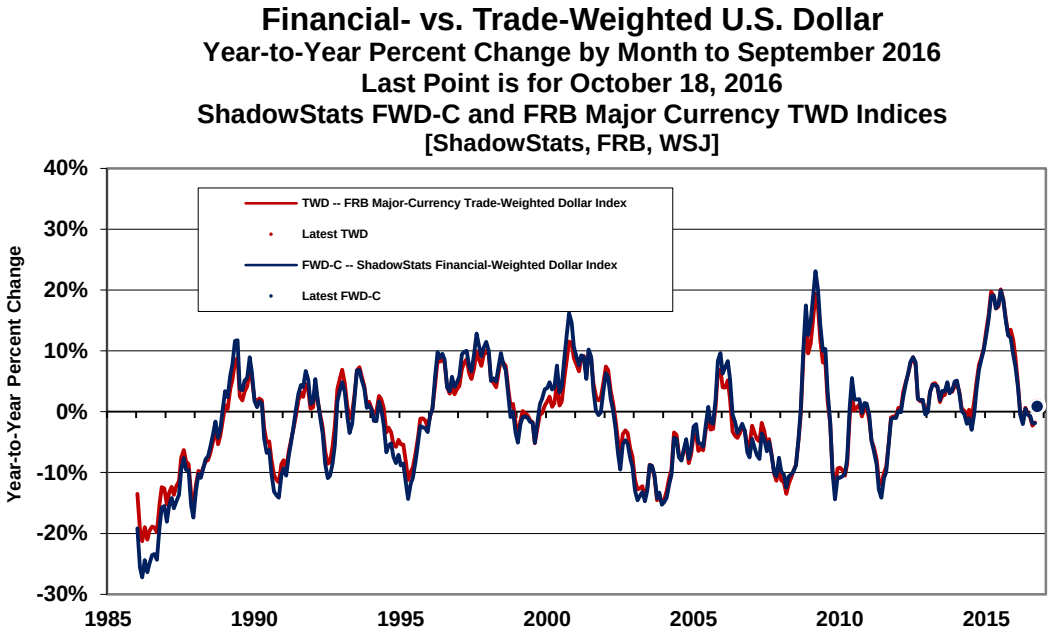
Faced with the threat of a banking-system collapse in the Panic of 2008, the U.S. Treasury and the Federal Reserve took whatever stopgap measures were needed to buy time, to push the crisis into the future, irrespective of cost. Those stopgap measures, however, did nothing to address the underlying U.S. economic or long-term solvency issues.

Graph 3: Financial- versus Trade-Weighted U.S. Dollar



Graph 4: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar



With a primary mission of propping and salvaging the banking system, the Fed launched its active quantitative easing programs to liquefy the banks, not to save the economy. At the same time, the Fed's

actions had the convenient effect of monetizing the equivalent of about 75% of new public debt issuance from the U.S. Treasury, providing the Treasury with needed liquidity.

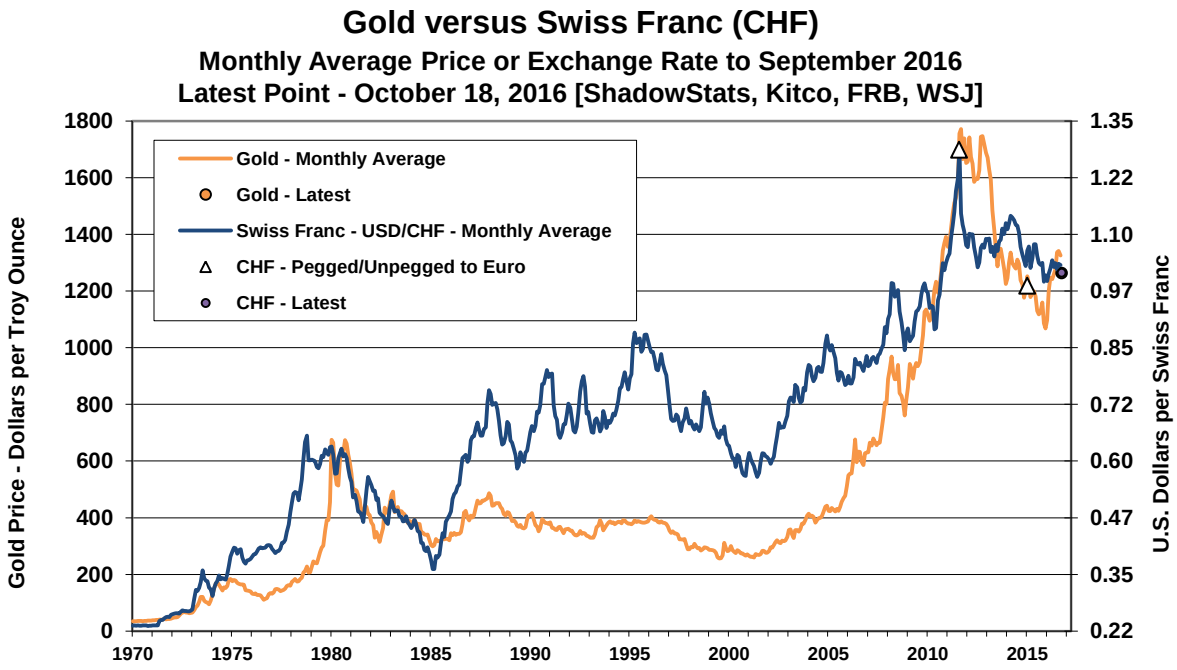
Continued talk, jawboning and hype by the Fed in recent years of moving to reverse the quantitative easing, was limited to the actual activity of stopping new purchases of securities (other than rolling over existing holdings at maturity) and a one-time 0.25% rate hike in December 2015. All the other talk, hype and jawboning, up through today, have been crafted primarily as gimmicked and short-lived props to the U.S. dollar. Yet any resulting dollar strength has been, and increasingly will be fleeting, as the markets increasingly dump the dollar, even with another round of actual tightening, and possible exacerbated by election results.

Again, as the renewed and deepening economic downturn continues to hit banking-system stresses and U.S. Treasury funding needs with intensified severity, the Fed most likely will have little choice but to renew and expand its active quantitative easing and, in the process, pummeling the U.S. dollar in the global markets.

Once heavy flight from the dollar and dollar-denominated assets comes into play, commodity prices, such as seen with oil and gasoline, will spike sharply, triggering a further surge in domestic inflation and setting the stage for an evolving inflationary spiral into hyperinflation.

The more troubled the U.S. economy, the more intense will be the selling pressure on the U.S. currency, and the more difficult circumstances will become for the U.S. equity markets. The broad impact from weakness in the U.S. dollar should be seen in higher domestic inflation, including rising oil prices, as well as continued and rapidly increasing flight to the precious metals of gold and silver.

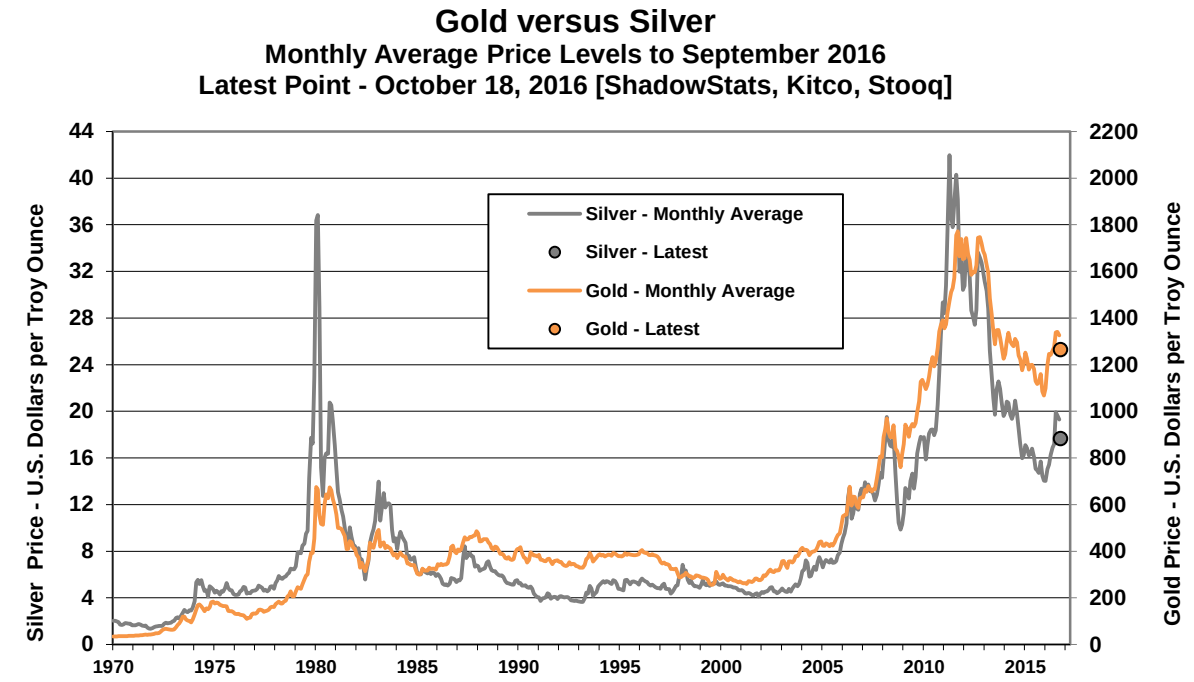
Graph 5: Gold versus the Swiss Franc



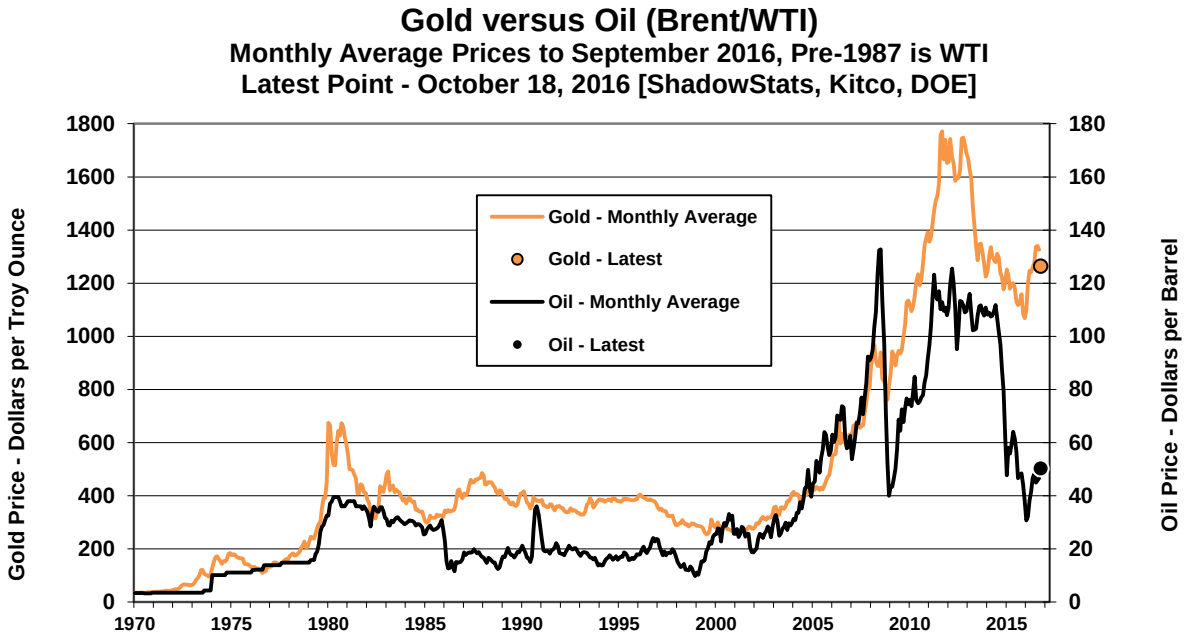
Would a meaningful change in government change the circumstance? It could. Whoever is President in 2017, though, likely still would have a great deal of political difficulty bringing long-term solvency issues

of the United States under control. The new President also would be saddled with a Federal Reserve that has lost control, or effectively is out of control of the system.

Graph 6: Gold versus Silver



Graph 7: Gold versus Oil



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The preceding monthly plots cover the U.S. Dollar (*Graphs 3* and *4*), along with the three gold graphs (*Graphs 5*, *6* and *7*), and were updated through late-day New York prices for October 18th. Recent activity has reflected a surge in the U.S. dollar's exchange rate, as well continued depressed gold and silver prices, despite some uptick in oil.

EXECUTIVE SUMMARY AND COMMENTS ON THE REPORTING DETAIL

2017 Social Security Cost of Living Adjustment Was Reduced from 0.4% to 0.3% by Unusual Revisions. The Bureau of Labor Statistics (BLS) never revises its basic, not-seasonally-adjusted CPI-U and CPI-W series, except for correcting errors, and admitted errors are extremely scarce. Today (October 18th) the BLS decided to publish a correction to its pricing of pharmaceuticals in the period for May 2016 through August 2016, along with its headline September 2016 detail. While the corrections were absolutely minimal in aggregate impact, they were enough to alter the 2017 Social Security COLA—also released today—from what would have been 0.4% to 0.3%, or from an unrounded 0.351% to 0.348%.

For Social Security recipients who do not view the annual COLAs as a meaningful offset to their cost of living, you are correct. In the 1990s, the U.S. government openly continued a process of changing the inflation-calculation methodology, so as to reduce reported inflation and related Social Security COLAs as a budget-cutting measure. The process continues today and is covered here: *Public Commentary on Inflation Measurement*.

Today's *Commentary* (October 18th). The balance of these *Opening Comments* covers the *Executive Summary* of the September 2016 CPI detail and related real Retail Sales and Earnings, where the *Reporting Detail* includes expanded analysis and additional graphs.

The potential election impact on the U.S. dollar and gold are discussed in the opening *Special Comments* section, along with the regular monthly graphs and discussion on FOMC activity, the U.S. dollar and gold, which usually accompany the monthly CPI reporting, although more standardly located in the *Hyperinflation Outlook*.

The *Week and Month Ahead* previews again the September Housing Starts reporting, due for release tomorrow (October 19th).

Consumer Price Index (CPI)—September 2016—Headline Inflation Took a Strong Jump, Along With Gasoline Prices. The headline September 2016 CPI-U monthly inflation of 0.29% basically was at consensus the expectation. With negligible seasonally-adjusted inflation in food, the headline gain was

generated by adjusted price inflation in the energy and broad "core" categories, with core inflation covering everything except food and energy.

As discussed in other, recent CPI *Commentaries* (see *Commentary No. 793*), it is the unadjusted, not the seasonally-adjusted detail that tends to match consumer experience most closely, to the extent that these numbers come close to matching actual experience at all. On an unadjusted basis, monthly CPI-U rose by 0.24% in September 2016, close to the adjusted number.

Separately, although official annual CPI-U inflation just jumped to 1.5% in September 2016, versus 1.1% in August 2016, year-to-year inflation is not and has not been quite as low as indicated, when considered in the context of traditional CPI reporting and common experience. The ShadowStats-Alternate Inflation Measures showed annual inflation in September 2016 of 5.0%, based on 1990 methodologies, and 9.1%, based on 1980 methodologies.

CPI-U. The headline, seasonally-adjusted September 2016 CPI-U rose by 0.29% month-to-month, following a headline gain of 0.20% in August and a contraction of 0.04% (-0.04%) in July. On an unadjusted basis, the monthly CPI-U rose by 0.24%, having gained 0.09% in August and having declined by 0.16% (-0.16%) in July.

Encompassed by the seasonally-adjusted monthly gain of 0.29% in September 2016 [up by an unadjusted 0.24%] in the headline CPI-U, September food inflation rose by 0.02% [up by 0.08% unadjusted], September energy inflation rose by a seasonally-adjusted 2.94% [up by 1.20% unadjusted], while the adjusted "core" (ex-food and energy) inflation rate rose by 0.11% [up by 0.18% unadjusted]. Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 2.21% in September 2016, versus 2.32% in August 2016, and a revised 2.19% in July 2016.

Not seasonally adjusted, September 2016 year-to-year inflation for the CPI-U rose to 1.46%, versus 1.06% in August 2016 and a revised 0.83% in July 2016.

On an annualized quarter-to-quarter basis, seasonally-adjusted CPI-U rose by 1.63% in third-quarter 2016, having risen by a revised 2.53% in second-quarter 2016 and declined by 0.31% (-0.31%) in first-quarter 2016.

On an unadjusted, year-to-year basis, annual inflation by quarter was up by 1.12% in third-quarter 2016, following a gain of 1.05% in second-quarter 2016 and 1.08% in first-quarter 2016.

CPI-W. The September 2016 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose month-to-month by 0.34%, following a revised monthly gain of 0.18% in August, and a decline of 0.09% (-0.09%) in July. On an unadjusted basis, the monthly CPI-W rose by 0.25%, having gained a revised 0.06% in August and having declined by 0.22% (-0.22%) in July.

Unadjusted, year-to-year change in September 2016 CPI-W was a gain of 1.22%, up from 0.66% in August 2016, and a revised 0.41% in July 2016.

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On an annualized quarter-to-quarter basis, the seasonally-adjusted CPI-W rose by 1.40% in third-quarter 2016, having gained a revised 2.56% in second-quarter 2016, and having declined in first-quarter 2016 by 1.08% (-1.08%).

On an unadjusted year-to-year basis, annual inflation by quarter was up by 0.76% in third-quarter 2016, having gained 0.71% in second-quarter 2016 and 0.79% in first-quarter 2016

Chained-CPI-U. Subject to the same "corrections" as the CPI-U and CPI-W series, the headline C-CPI-U is not seasonally adjusted, and was not revised otherwise in today's headline reporting. The September 2016 C-CPI-U annual inflation came in at 1.23%, up from 0.75% in August 2016, a revised 0.52% in July 2016.

Alternate Consumer Inflation Measures. The ShadowStats-Alternate Consumer Inflation Measures are constructed on top of the unadjusted CPI-U series. Adjusted to 1990 methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 5.0% in September 2016, versus 4.6% in August 2016. The September 2016 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 9.1% year-to-year, versus 8.7% in August 2016.

Real (Inflation-Adjusted) Retail Sales—Up by 0.3% Month-to-Month, by 1.2% Year-to-Year, Not Recovering July's Level. Discussed in *Commentary No. 839*, nominal monthly retail sales in September 2016 rose by 0.62%, against a revised, narrower decline of 0.19% (-0.19%) in August and a minimally, upwardly revised 0.10% gain in July. The September 2016 year-to-year nominal retail-sales gain rose to 2.67%, versus an upwardly revised 2.06% in August 2016, and an upwardly revised 2.40% in July 2016.

Headline Real Detail. All the preceding numbers were before any consideration for the effects of inflation. The initial monthly and annual inflation-adjusted real growth rates for September 2016 Retail Sales, and the trend for annualized third-quarter 2016 real change in retail sales follow, using the accompanying detail of today's October 18th release of the September 2016 CPI-U.

Based on a headline seasonally-adjusted monthly CPI-U gain of 0.29% in September 2016, a 0.20% gain in August and a decline of 0.04% (-0.04%) in July, September 2016 real Retail Sales rose by 0.33%, following an unrevised monthly decline 0.39% (-0.39%) in August and an unrevised gain of 0.14% in July. Despite the monthly September gain, and in the context of the August decline, headline retail sales did not regain the July level of activity.

Intense Signal of Recession in Annual Real Growth. During normal economic times, annual real growth in Retail Sales at or below 2.0% signals an imminent recession. That signal has been in play since February 2015 (the "new" recession likely will be timed from December 2014, based on industrial production, retail sales and other indicators), suggesting a deepening, broad economic downturn.

Year-to-year, September 2016 real retail sales growth increased to 1.17%, having slowed to 0.96% in August 2016, which was a sharp drop from annual real growth of 1.51% in July 2016. With annual real growth slowing to 1.22% in initial third-quarter 2016 reporting, versus 1.56% in second-quarter 2016 and 1.62% in first-quarter 2016, the recession signal remains intense, consistent with an unfolding economic downturn. *Graphs 13* and *15* in the *Reporting Detail*, show the latest patterns of headline annual real retail sales growth.

Initial Third-Quarter 2016 Annualized Real Growth Trend Slowed Sharply versus Second-Quarter 2016, with First-Quarter 2016 Still Flat. Based on full reporting for third-quarter 2016, annualized real quarterly Retail Sales growth slowed sharply to 1.22%, from a minimally-revised 3.37% annualized growth in second-quarter 2016. Such was against an unrevised estimate of annualized quarterly real growth of 0.10%—effectively flat—in first-quarter 2016.

Corrected Real Retail Sales—September 2016**.** The apparent "recovery" of headline real retail sales shown in *Graph 8* (see also *Graph 12* in the *Reporting Detail*) generally continued into late-2014. Although headline reporting turned down in December 2014, into first-quarter 2015, it turned higher into the third-quarter 2015, slowed to a near-standstill in fourth-quarter 2015 and first-quarter 2016, with an uptick in second-quarter 2016 but with renewed slippage into third-quarter 2016. Nonetheless, headline real growth in retail sales continues to be overstated heavily, due to the understatement of CPI-U inflation used in deflating the retail sales series. Discussed more fully in *Chapter 9* of *2014 Hyperinflation Report—Great Economic Tumble – Second Installment* and *Public Commentary on Inflation Measurement*, deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth.

Both of the accompanying graphs are indexed to January 2000 = 100.0 to maintain consistency in the series of graphs related to corrected inflation-adjustment (including the regular plots of the "corrected" industrial production index (see prior *Commentary No. 840*), "corrected" new orders for durable goods (*Commentary No. 835*) and "corrected" GDP (*Commentary No. 836*).

The first graph here reflects the official real retail sales series, except that it is indexed, instead of being expressed in dollars. The plotted patterns of activity and rates of growth are exactly same for the official series, whether the series is indexed or expressed in dollars, again, as is evident in a comparison of *Graph 8* with *Graph 12* in the *Reporting Detail* section.

Instead of being deflated by the CPI-U, the "corrected" real retail sales numbers—in *Graph 9*—use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation. With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation and renewed downturn. That pattern generally is consistent with consumer indicators such as real average weekly earnings (see the next section), faltering consumer liquidity conditions (see *Commentary No. 839* and *Commentary No. 833*), the broad unemployment series (see *Commentary No. 838*) and most housing statistics such as Housing Starts detail (see *Commentary No. 826*).

A topping out in late-2011 and early-2012 reverted to renewed decline in second-quarter 2012 in this series (*Graph 9*), which had been bottom-bouncing at a low-level plateau of economic activity since the economic collapse into 2009. The renewed contraction has trended into and deepened on a monthly basis throughout 2015, and now into third-quarter 2016, allowing for occasional and temporary upside blips.

[Graphs 8 and 9 follow on the next page.]

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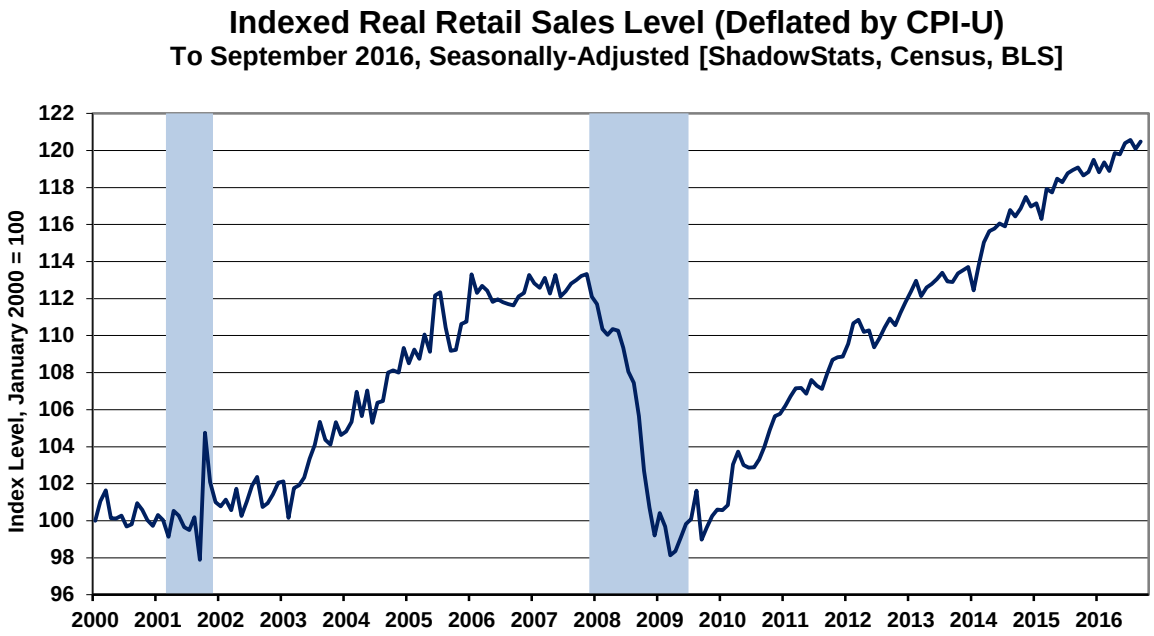
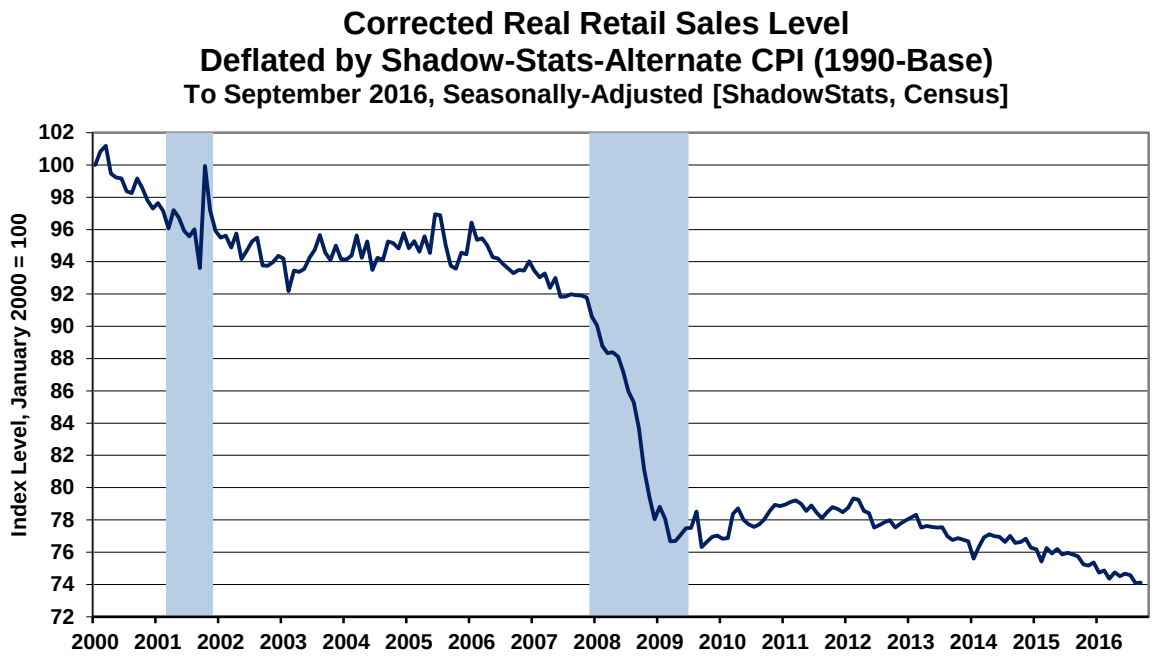
Graph 8: Headline Real Retail Sales Level, Indexed to January 2000 = 100



Graph 9: "Corrected" Real Retail Sales Level, Indexed to January 2000 = 100



Real Average Weekly Earnings—September 2016—Real Earnings Fell for the Second Month in the Context of Ongoing Unstable Reporting. The headline estimate for September 2016 real average weekly earnings was published coincident with the release of today's CPI-W. In the production and

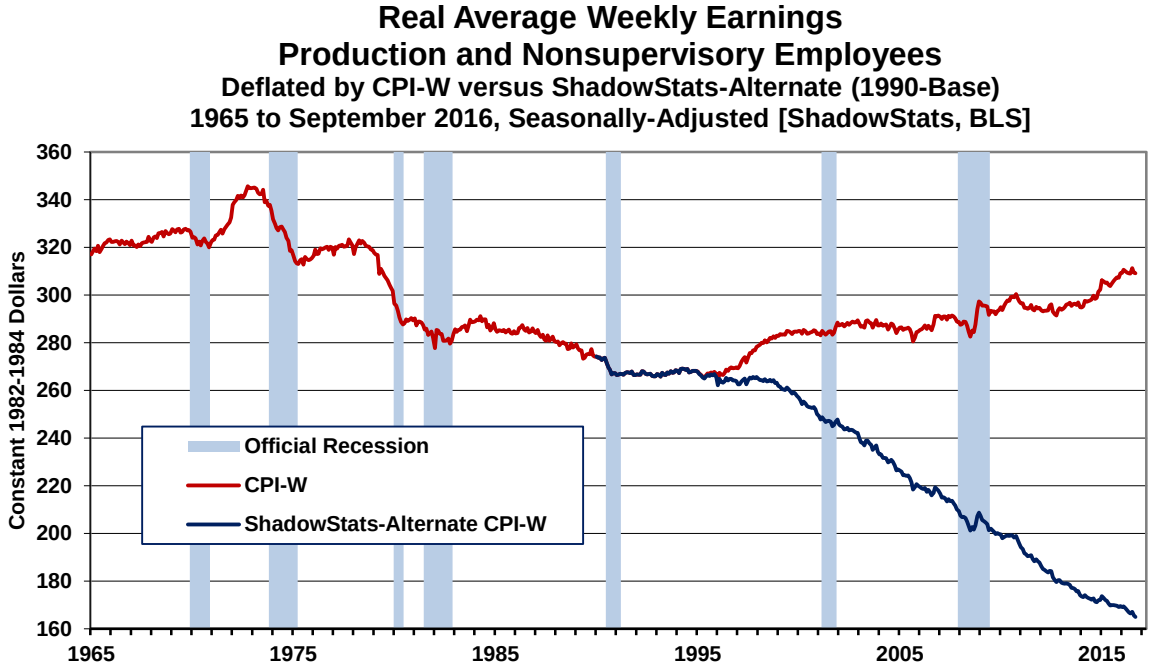
nonsupervisory employees category—the only series for which there is a meaningful history, real average weekly earnings in September 2016 fell by 0.11% (-0.11%) month-to-month, following a revised, deeper decline in August of 0.58% (-0.58%), and a minimally revised monthly gain of 0.72% in July. The September monthly decline was the fifth month-to-month hit to this series in the last six months.

Those readings maintained a minimally-revised second-quarter 2016 annualized quarter-to-quarter contraction of 0.96% (-0.96%), with an initial estimate for third-quarter 2016 at an annualized real growth pace of 0.94%.

These usually heavily-revised and seasonally-adjusted monthly changes are without much, if any, meaning in the near-term—effectively reporting garbage—over the longer term and quarterly, however, and particularly the benchmarked trends tend to be of some substance.

Separately, the CPI-W deflated reporting is distorted versus the CPI-U-deflated series, where the CPI-W—more heavily weighted with gasoline prices—tends to have much deeper, negative headline inflation, with resulting stronger headline, real growth than would be seen with the CPI-U, when gasoline prices are falling, and vice versa. Such was true again for in September 2016 detail, where higher gasoline prices generated a headline monthly CPI-W gain of 0.34%, versus a CPI-U gain of 0.29%.

Graph 10: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date



Preceding *Graph 10* plots the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been in a minimal uptrend for the last two decades (albeit spiked recently by negative

headline inflation). Deflated by the ShadowStats (1990-Based) measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See the *Public Commentary on Inflation Measurement* for further detail.

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

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REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (September 2016)

Headline CPI-U Inflation Took a Strong Jump Along With Gasoline Prices. *[These first three paragraphs largely are repeated from the* Opening Comments *and* Executive Summary.*]* The headline September 2016 CPI-U monthly inflation of 0.3% [up by 0.29% at the second decimal point] was at consensus expectations. With negligible seasonally-adjusted inflation in food, the headline gain was generated by price inflation in the energy and broad "core" categories, with core inflation covering everything except food and energy.

Separately, although headline annual CPI-U inflation just jumped to 1.5% in September, versus 1.1% in August 2016, year-to-year inflation is not and has not been quite as low as indicated, when considered in the context of traditional CPI reporting and common experience. The ShadowStats-Alternate Inflation Measures showed annual inflation in September 2016 of 5.0%, based on 1990 methodologies, and 9.1%, based on 1980 methodologies.

2017 Social Security Cost of Living Adjustment Reduced from 0.4% to 0.3% by Unusual CPI Revisions. The Bureau of Labor Statistics (BLS) never revises its base, not-seasonally-adjusted CPI-U or CPI-W series, except for correcting an error, and admitted errors are extremely scarce. Today (October 18th) the BLS decided to publish a correction to its pricing of pharmaceuticals in the period for May 2016 through August 2016, along with its headline September 2016 CPI detail. While the corrections were absolutely minimal in their aggregate impact, they were enough to alter the 2017 Social Security COLA, from what would have been 0.4% to 0.3%, or from an unrounded 0.351% to 0.348%. Suppose they had held off on the revision until next month?

Longer-Range Inflation Outlook. Reviewed in today's *Opening Comments* and discussed in *Commentary No. 831* and *No. 777 Year-End Special Commentary*, high risk of extreme flight from the U.S. dollar—a massive dollar debasement—continues to threaten an increasingly-rapid upturn in energy

and dollar-based commodity inflation, which would drive headline U.S. inflation much higher. That process should continue, with a high-risk potential post-election run on the dollar. Nonetheless, dollar selling also should accelerate, in tandem with the increased downturn in the economy and increasing recognition in the global markets that the U.S. Federal Reserve and other central banks have no effective idea as to how to boost current economic activity, or to stabilize global banking-system solvency.

Despite recent FOMC bluffing in terms of rate increases, and even if rates are raised in the near future, the economy is tanking. Again, that threatens banking- and financial-system liquidity. It is the liquidity, not the economic concerns that would force the Fed to fall back to its basic mission, that of propping the U.S. banking system, and funding the liquidity of the U.S. Treasury. The Fed should move to expand quantitative easing post-election, not to tighten monetary policy meaningfully (see the *Opening Comments*).

Notes on Different Measures of the Consumer Price Index

The Consumer Price Index (CPI) is the broadest inflation measure published by the U.S. Government, through the Bureau of Labor Statistics (BLS), Department of Labor:

The ***CPI-U (Consumer Price Index for All Urban Consumers)*** *is the monthly headline inflation number (seasonally adjusted) and is the broadest in its coverage, representing the buying patterns of all urban consumers. Its standard measure is not seasonally-adjusted, and it never is revised on that basis except for outright errors.*

The ***CPI-W (CPI for Urban Wage Earners and Clerical Workers****) covers the more-narrow universe of urban wage earners and clerical workers and is used in determining cost of living adjustments in government programs such as Social Security. Otherwise, its background is the same as the CPI-U.*

The ***C-CPI-U (Chain-Weighted CPI-U)*** *is an experimental measure, where the weighting of components is fully substitution based. It generally shows lower annual inflation rate than the CPI-U and CPI-W. The latter two measures once had fixed weightings—so as to measure the cost of living of maintaining a constant standard of living—but now are quasi-substitution-based. Since it is fully substitution based, the series tends to reflect lower inflation than the other CPI measures. Accordingly, the C-CPI-U is the "new inflation" measure being proffered by Congress and the White House as a tool for reducing Social Security cost-of-living adjustments by stealth. Moving to accommodate the Congress, the BLS introduced changes to the C-CPI-U estimation process with the February 26, 2015 reporting of January 2015 inflation, aimed at finalizing the C-CPI-U estimates on a more-timely basis, and enhancing its ability to produce lower headline inflation than the traditional CPI-U.*

The ***ShadowStats Alternative CPI-U Measures*** *are attempts at adjusting reported CPI-U inflation for the impact of methodological change of recent decades designed to move the concept of the CPI away from being a measure of the cost of living needed to maintain a constant standard of living. There are two measures, where the first is based on reporting methodologies in place as of 1980, and the second is based on reporting methodologies in place as of 1990.*

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CPI-U. The Bureau of Labor Statistics reported on October 18th that the headline, seasonally-adjusted September 2016 CPI-U rose by 0.3% month-to-month, up by 0.29% at the second decimal point. That followed a headline gain of 0.2% month-to-month, up by 0.20% at the second decimal point in August, versus "unchanged" at 0.0%, down by 0.04% (-0.04%) at the second decimal point July 2016, and an increase in June of 0.2%, up by a "corrected" 0.21% (previously 0.22%) at the second decimal point.

The adjusted headline September 2016 inflation increased was boosted by positive seasonal adjustments to the energy sector, but otherwise softened by negative seasonal adjustments to "core" (ex-food and energy) and food sectors. On an unadjusted basis, monthly September 2016 CPI-U rose by 0.24%, having gained 0.09% in August, having declined by 0.16% (-0.16%) in July and following an unadjusted monthly gains of 0.33% in June.

September 2016 seasonal adjustments for monthly gasoline inflation were positive, "boosting" an unadjusted headline gain of 2.35% in gas prices into an adjusted gain of 5.76%. The Department of Energy (DOE) had estimated an unadjusted monthly gain of 1.88%.

Major CPI-U Groups. Encompassed by the seasonally-adjusted monthly gain of 0.29% in September 2016 [up by an unadjusted 0.24%] in the headline CPI-U, September food inflation rose by 0.02% [up by 0.08% unadjusted], September energy inflation rose by a seasonally-adjusted 2.94% [up by 1.20% unadjusted], while the adjusted "core" (ex-food and energy) inflation rate rose by 0.11% [up by 0.18% unadjusted].

Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 2.21% in September 2016, versus 2.32% in August 2016, and a revised 2.19% [previously 2.20%] in July 2016.

Year-to-Year CPI-U. Not seasonally adjusted, September 2016 year-to-year inflation for the CPI-U rose to 1.5% (1.46% at the second decimal point), versus 1.1% (1.06% at the second decimal point) in August 2016, 0.8% (a revised 0.83%, previously 0.84%, at the second decimal point) in July, and 1.0% (a revised 1.00%, previously 1.01% at the second decimal point) in June 2016.

Year-to-year, CPI-U inflation would increase or decrease in next month's October 2016 reporting, dependent on the seasonally-adjusted month-to-month change, versus the adjusted, headline gain of 0.19% in October 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 October 2016, the difference in October's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the September 2016 annual inflation rate of 1.46%. For example, another seasonally-adjusted, gain of 0.3% in the monthly October 2016 CPI-U, would move the annual CPI-U inflation rate for October 2016 up to about 1.5% or 1.6%, plus-or-minus, depending on rounding.

Quarterly CPI-U. On an annualized quarter-to-quarter basis, seasonally-adjusted CPI-U rose by 1.63% in third-quarter 2016, having risen by a revised 2.53% (previously 2.54%) in second-quarter 2016, declined by 0.31% (-0.31%) in first-quarter 2016, and up by 0.77% in fourth-quarter 2015, by 1.38% in third-quarter 2015, by 2.44% in second-quarter 2015 and down by 2.86% (-2.86%) in first-quarter 2015.

On an unadjusted, year-to-year basis, annual inflation by quarter was up by 1.12% in third-quarter 2016, following a gain of 1.05% in second-quarter 2016, 1.08% in first-quarter 2016, 0.47% in fourth-quarter

2015, 0.11% in third-quarter 2015, and declines in second-quarter 2015 of 0.04% (-0.04%), and in first-quarter 2015 of 0.06% (-0.06%).

For living in a not-seasonally-adjusted world, annualized quarterly inflation was 1.34% in third-quarter 2016, versus a revised 4.77% (previously 4.79%) in second-quarter 2016 and 0.26% in first-quarter 2016.

CPI-W. The September 2016 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose month-to-month by 0.34%, following a revised monthly gain of 0.18% (previously 0.17%) in August, a decline of 0.09% (-0.09%) in July and a monthly gain of 0.21% June. On an unadjusted basis, the monthly CPI-W rose by 0.25%, having gained a revised 0.06% (previously 0.05%) in August, declined by 0.22% (-0.22%) in July and having gained a revised 0.36% (previously 0.37%) in June.

Year-to-Year CPI-W. Unadjusted, year-to-year change in September 2016 CPI-W was a gain of 1.22%, up from 0.66% in August 2016, a revised 0.41% (previously 0.42%) in July 2016 and 0.64% in June 2016.

Quarterly CPI-W. On an annualized quarter-to-quarter basis, the seasonally-adjusted CPI-W rose by 1.40% in third-quarter 2016, having gained a revised 2.56% (previously 2.58%) in second-quarter 2016, having declined by in first-quarter 2016 by 1.08% (-1.08%), having gained by 0.39% in fourth-quarter 2015, by 2.56% in third-quarter 2015, by 1.23% in the second-quarter 2015, and having declined by 4.21% (-4.21%) in first-quarter 2015.

On an unadjusted year-to-year basis, annual inflation by quarter was up by 0.76% in third-quarter 2016, having gained 0.71% in second-quarter 2016, 0.79% in first-quarter 2016 and 0.03% in fourth-quarter 2015, and having declined by 0.41% (-0.41%) in third-quarter 2015, by 0.59% (-0.59%) in second-quarter 2015 and by 0.68% (-0.68%) in first-quarter 2015.

Social Security COLA. The 2017 cost of living adjustment was based on the unadjusted third-quarter 2016 average CPI-W, versus the unadjusted third-quarter 2014 CPI-W. Where the intervening reading of the 2015 annual change was negative, the 2016 level had to top the 2014 reading before a non-zero COLA would kick in. The headline COLA adjustment is 0.3% for 2017, but as discussed in the *Opening Comments*, it easily could have 0.4%, and would have been several percentage points higher, based on consistent historical reporting methodology.

Chained-CPI-U. Subject to same "corrections" as the CPI-U and CPI-W series, the headline C-CPI-U is not seasonally adjusted, and was not otherwise revised in today's headline reporting. The September 2016 C-CPI-U annual inflation came in at 1.23%, up from 0.75% in August 2016, a revised 0.52% [previously 0.53%] in July 2016 and a revised 0.74% [previously 0.75%] in June 2016.

See discussions in the earlier CPI *Commentary No. 721* and in the opening notes in the *CPI Section* of *Commentary No. 699* as to recent changes in the series. More-frequent revisions and earlier finalization of monthly detail are designed to groom the C-CPI-U series as the new Cost of Living Adjustment (COLA) index of choice for the budget-deficit-strapped federal government, as discussed in the *Public Commentary on Inflation Measurement*.

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Caution: Artificially-low inflation numbers estimated by the U.S. Government and used in fields ranging from Social Security COLAs (see today's CPI-W estimate) to determining income-tax brackets, have been redesigned in recent decades specifically to help reduce the federal deficit. They are harmfully misleading to anyone using a government CPI estimate as a meaningful cost-of-living measure for guidance on income or investment purposes.

Alternate Consumer Inflation Measures. The ShadowStats-Alternate Consumer Inflation Measures are constructed on top of the unadjusted CPI-U series. Adjusted to 1990 methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 5.0% in September 2016, versus 4.6% in August 2016.

The September 2016 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 9.1% (9.15%, rounds to 9.1%, for those using the second decimal point) year-to-year, versus 8.7% in August 2016, 8.5% in July 2016 and 8.7% in June 2016.

Note: The ShadowStats-Alternate Consumer Inflation Measures largely have been reverse-engineered from BLS estimates of the anticipated impact on annual CPI inflation from various changes made to CPI reporting methodology since the early 1980s, as also incorporated in the CPI-U-RS series. That series provides an official estimate of historical inflation, assuming that all current methodologies were in place going back in time. The changes reflected there are parallel with and of the same magnitude of change as estimated by the BLS, when a given methodology was changed.

The ShadowStats estimates are adjusted on an additive basis for the cumulative impact on the annual inflation rate from the various BLS changes in methodology (reversing the net aggregate inflation reductions by the BLS). The series are adjusted by ShadowStats for those aggregate changes, but the series otherwise are not recalculated.

Over the decades, the BLS has altered the meaning of the CPI from being a measure of the cost of living needed to maintain a constant standard of living, to something that neither reflects the constant-standard-of-living concept nor measures adequately what most consumers view as out-of-pocket expenditures. Roughly five percentage points of the additive ShadowStats adjustment since 1980 reflect the BLS's formal estimate of the annual impact of methodological changes; roughly, two percentage points reflect changes by the BLS, where ShadowStats has estimated the impact not otherwise published by the BLS. For example, the BLS does not consider more-frequent weightings of the CPI series or shifting the nature of retail outlets to be changes in methodology. Yet those changes have had the effect of reducing headline inflation from what it would have been otherwise (See Public Commentary on Inflation Measurement *for further details.)*

Gold and Silver Historic High Prices Adjusted for September 2016 CPI-U/ShadowStats Inflation—

CPI-U: GOLD at $2,638 per Troy Ounce, SILVER at $153 per Troy Ounce
ShadowStats: GOLD at $13,291 per Troy Ounce, SILVER at $773 per Troy Ounce

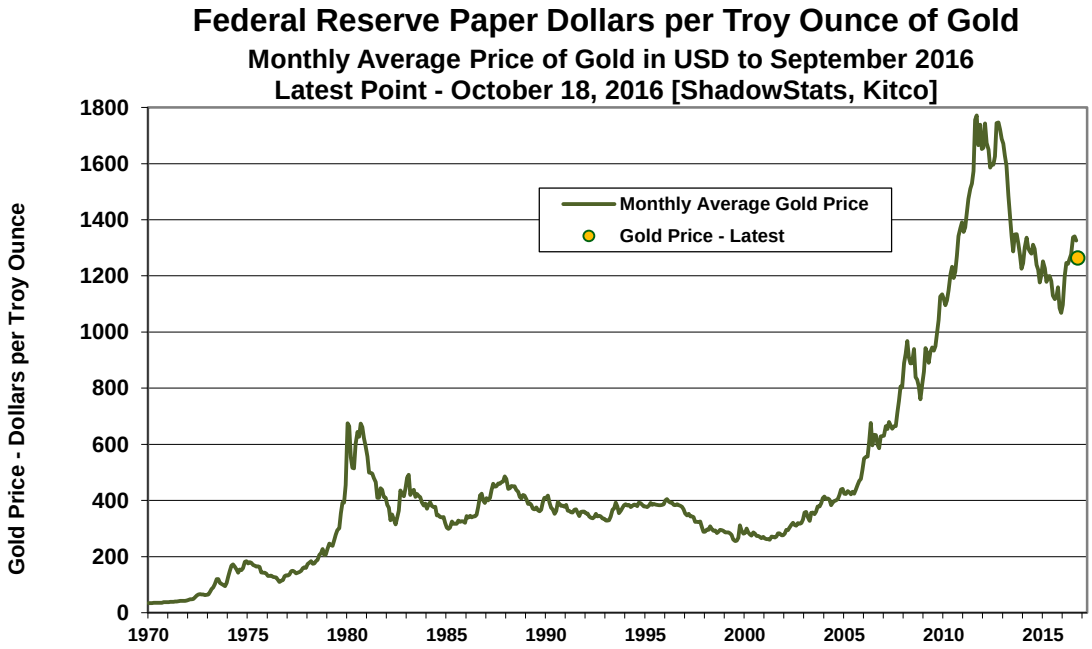
Despite the September 5, 2011 historic-high gold price of $1,895.00 per troy ounce (London afternoon fix), and despite the multi-decade-high silver price of $48.70 per troy ounce (London fix of April 28, 2011), gold and silver prices have yet to re-hit their 1980 historic levels, adjusted for inflation. The

earlier all-time high of $850.00 (London afternoon fix, per Kitco.com) for gold on January 21, 1980 would be $2,638 per troy ounce, based on September 2016 CPI-U-adjusted dollars, and $13,291 per troy ounce, based on September 2016 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (all series here are not seasonally adjusted).

In like manner, the all-time high nominal price for silver in January 1980 of $49.45 per troy ounce (London afternoon fix, per silverinstitute.org)—although approached in 2011—still has not been hit since 1980, including in terms of inflation-adjusted dollars. Based on September 2016 CPI-U inflation, the 1980 silver-price peak would be $153 per troy ounce and would be $773 per troy ounce in terms of September 2016 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

Shown in Table 1, on page 31 of *2014 Hyperinflation Report—The End Game Begins – First Installment Revised*, over the decades, the increases in gold and silver prices have compensated for more than the loss of the purchasing power of the U.S. dollar as reflected by CPI inflation. They also effectively have come close to fully compensating for the loss of purchasing power of the dollar based on the ShadowStats-Alternate Consumer Price Measure (1980-Methodologies Base).

Graph 11: Monthly Average Gold Price in Dollars (Federal Reserve Notes)



Real (Inflation-Adjusted) Retail Sales—September 2016—Up by 0.3% Month-to-Month, by 1.2% Year-to-Year. Discussed in *Commentary No. 839*, nominal monthly retail sales in September 2016 rose by 0.62%, against a revised, narrower decline of 0.19% (-0.19%) in August and a minimally, upwardly revised 0.10% gain in July. The September 2016 year-to-year nominal retail-sales gain rose to 2.67%, versus an upwardly revised 2.06% in August 2016, and an upwardly revised 2.40% in July 2016.

Headline Real Detail. All the preceding numbers were before any consideration for the effects of inflation. The initial monthly and annual inflation-adjusted real growth rates for September 2016 Retail

Sales, and the trend for annualized third-quarter 2016 real change in retail sales follow, based on the accompanying detail of today's October 18th release of the September 2016 CPI-U.

Based on headline seasonally-adjusted monthly CPI-U gain of 0.29% in September 2016, a 0.20% gain in August and a decline of 0.04% (-0.04%) in July, September 2016 real Retail Sales rose by 0.33%, following an unrevised drop of 0.39% (-0.39%) in the month for August 2016 and an unrevised gain of 0.14% in July. Despite the monthly September gain, and in the context of the August decline, headline retail sales did not regain the July level of activity.

Intense Signal of Recession in Annual Real Growth. During normal economic times, annual real growth in Retail Sales at or below 2.0% signals an imminent recession. That signal has been in play since February 2015 (the "new" recession likely will be timed from December 2014, based on industrial production, retail sales and other indicators), suggesting a deepening, broad economic downturn.

Year-to-year, September 2016 real retail sales growth increased to 1.17%, having slowed to 0.96% in August 2016, which was a sharp drop from annual real growth of 1.51% in July 2016. With annual real growth slowing to 1.22% in initial third-quarter 2016 reporting, versus 1.56% in second-quarter 2016 and 1.62% in first-quarter 2016, the recession signal remains intense, consistent with an unfolding economic downturn. *Graphs 13* and *15*, following, show the latest patterns of headline annual real retail sales growth.

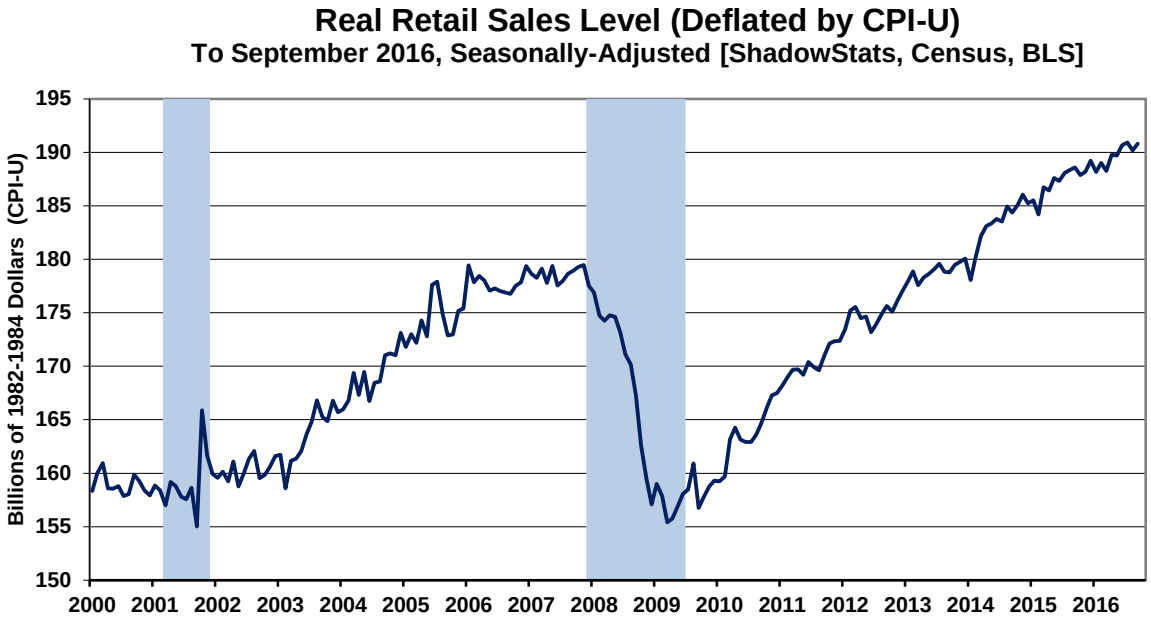
Initial Third-Quarter 2016 Annualized Real Growth Trend Slowed Sharply versus Second-Quarter 2016, with First-Quarter 2016 Still Flat. Based on full reporting for third-quarter 2016, annualized real quarterly Retail Sales growth slowed sharply to 1.22%, from a minimally-revised 3.37% [previously 3.36%] annualized growth in second-quarter 2016. Such was against an unrevised estimate of annualized quarterly real growth of 0.10%—effectively flat—in first-quarter 2016.

Structural Liquidity Issues Continue to Impair Retail Sales. An extreme consumer-liquidity bind continues to constrain retail sales activity, as was fully updated in *Commentary No. 839*. 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.

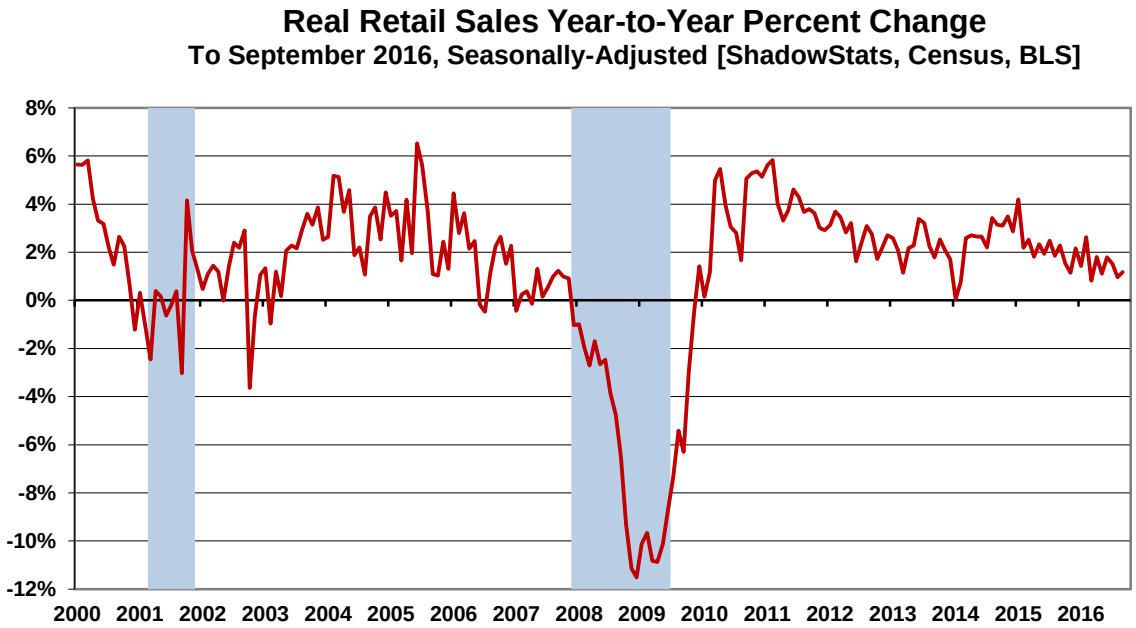
As official consumer inflation continues its upside climb in the year ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze, these data should continue trending meaningfully lower, in what should gain recognition in the very near future as a formal "new" recession.

Real Retail Sales Graphs. *Graph 12*, the first of the four graphs following, shows the level of real retail sales activity (deflated by the CPI-U) since 2000; *Graph 13* shows the year-to-year percent change for the same period. Annual real growth had slowed markedly into fourth-quarter 2015 and 2016, generating an intense recession signal. *Graphs 14* and *15* show the level of, and annual growth in, real retail sales (and its predecessor series) in full post-World War II detail.

Graph 12: Level of Real Retail Sales (2000 to 2016)



Graph 13: Real Retail Sales (2000 to 2016), Year-to-Year Percent Change



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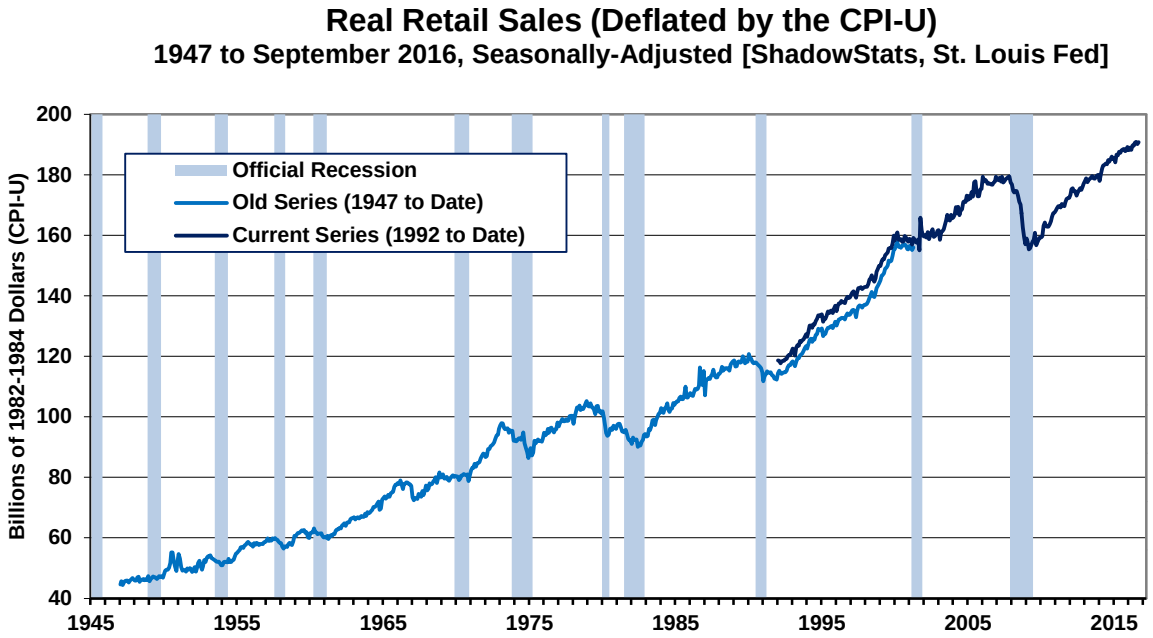
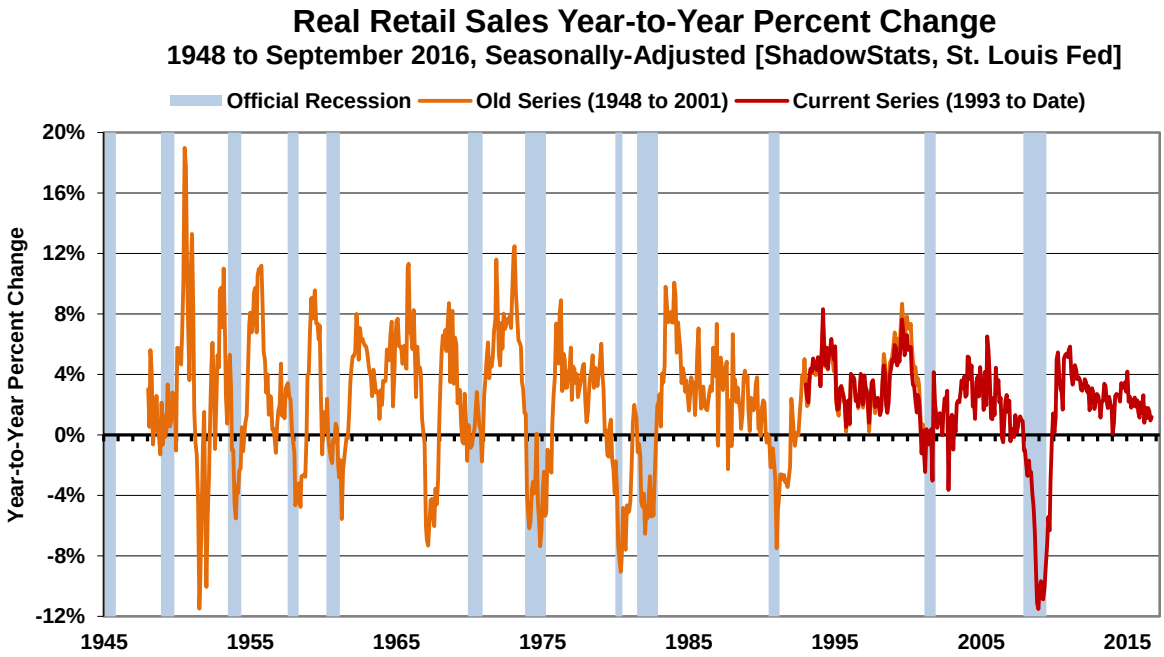
Graph 14: Level of Real Retail Sales (1947 to 2016)



Graph 15: Real Retail Sales (1948 to 2016), Year-to-Year Percent Change



The relative strength seen in the real retail series since the economic trough in 2009 largely has reflected the understatement of the rate of inflation used in deflating the series. Discussed more fully in *Chapter 9* of *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, deflation by too low an

inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted, real economic growth.

Shown in the latest "corrected" real retail sales—*Graph 9* in the *Opening Comments* section—with the deflation rates corrected for the understated inflation reporting of the CPI-U, the recent pattern of real sales activity has turned increasingly negative. The corrected graph shows that the post-2009 period of protracted stagnation ended, and a period of renewed and ongoing contraction began in second-quarter 2012 and continues to date. The corrected real retail sales numbers use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation instead of the CPI-U.

Real (Inflation-Adjusted) Average Weekly Earnings—September 2016—Real Earnings Fell for the Second Month in the Context of Ongoing Unstable Reporting. The BLS published its estimates for September 2016 real average weekly earnings, coincident with the release of today's CPI-W. In the production and nonsupervisory employees category—the only series for which there is a meaningful history, real average weekly earnings in September 2016 fell by 0.11% (-0.11%) month-to-month, following a revised decline in August of 0.58% (-0.58%) [previously down by 0.28% (-0.28%), and a revised monthly gain of 0.72% [previously up by 0.76%] in July. The September monthly decline was the fifth month-to-month hit to this series in the last six months.

Those readings maintained a minimally-revised second-quarter 2016 annualized quarter-to-quarter contraction of 0.96% (-0.96%) [previously down by 0.97% (-0.97%)], with an initial estimate for third-quarter 2016 at an annualized real growth pace of 0.94%.

While these usually heavily revised and seasonally-adjusted monthly changes are without much, if any, meaning in the near-term—effectively reporting garbage—over the longer term and quarterly, and particularly the benchmarked trends tend to be of some substance. As with the BLS reporting tied to the nonfarm payrolls, the headline seasonally-adjusted data here are not comparable due to reporting issues with concurrent seasonal factor adjustments (see *Headline Distortions from Shifting Concurrent-Seasonal Factors* in *Commentary No. 838*. The reporting in this series remains particularly unstable.

Separately, the CPI-W deflated reporting here also is distorted versus the CPI-U-deflated series, where the CPI-W—more heavily weighted with gasoline prices—tends to have much deeper, negative headline inflation, with resulting stronger headline, real growth than would be seen with the CPI-U, when gasoline prices are falling, and vice versa. Such was true again for in September 2016 detail, where higher gasoline prices generated a headline monthly CPI-W gain of 0.34%, versus a CPI-U gain of 0.29%.

Found in the *Opening Comments* section, *Graph 10* plots this series, showing the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened headline CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been in a minimal uptrend for the last two decades (albeit spiked recently by negative headline inflation). Deflated by the ShadowStats (1990-Based) measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See the *Public Commentary on Inflation Measurement* for further detail.

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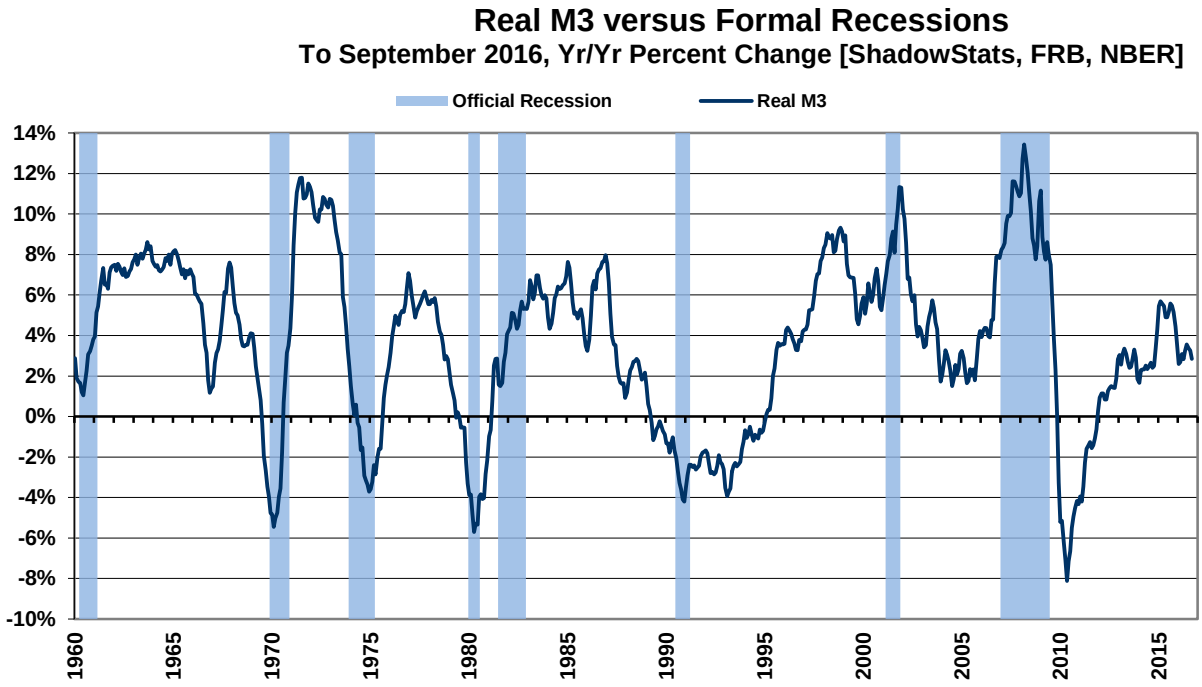
Real (Inflation-Adjusted) Money Supply M3—September 2016—Annual Growth Slowed Again to Its Near-Term Trough. The signal for a double-dip, multiple-dip or simply protracted, ongoing recession, based on annual contraction in the real (inflation-adjusted) broad money supply (M3), remains in place, despite real annual M3 growth having rallied in positive territory for a number of years. Shown in the *Graph 16*—based on September 2016 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate (including regular Federal Reserve Board money supply revisions)—annual inflation-adjusted growth in September 2016 M3 slowed to 2.8% in September 2016, versus 3.2% in August 2016, 3.4% in July 2016 and 3.6% in June 2016, 3.3% in May 2016, tying the near-term trough of 2.8% in April 2016. The 0.4% (-0.4%) decline in the monthly year-to-year change reflected no change in annual M3 growth, with a 0.4% monthly jump in the level of annual, not-seasonally-adjusted CPI-U inflation (see *Commentary No. 838*).

Graph 16: Real M3 Annual Growth versus Formal Recessions



The signal for a downturn or an intensified downturn is generated when annual growth in real M3 first turns negative in a given cycle; the signal is not dependent on the depth of the downturn or its duration. Breaking into positive territory does not generate a meaningful signal one way or the other for the broad economy. The current "new" downturn signal was generated in December 2009, even though there had been no upturn since the economy purportedly hit bottom in mid-2009. The ongoing issue here confounding the regular signal is that the U.S. economy never has recovered fully from its collapse into 2007. The economic initial downturn never evolved into a sustainable recovery. \

Again, when real M3 growth breaks above zero, there is no signal; the signal is generated only when annual growth moves into negative territory. The broad economy tends to follow in downturn or renewed deterioration roughly six-to-nine months after the signal. Weaknesses in a number of economic series have continued to the present, with significant new softness in recent reporting. Actual post-2009 economic activity has remained at relatively low levels of activity—in protracted stagnation, with no

actual recovery (see *Graphs 9 and 10* in the *Opening Comments* and *No. 777 Year-End Special Commentary*).

Despite the purported, ongoing recovery shown in headline GDP activity, a renewed downturn in official data is underway that still should gain official recognition, likely post-election, as a "new" or multiple-dip recession. Underlying reality remains that the economic collapse into 2009 was followed by a plateau of low-level economic activity—no meaningful upturn, no recovery from or end to the official 2007 recession—and the unfolding renewed downturn remains nothing more than a continuation and re-intensification of the downturn that began unofficially in 2006 (see *Commentary No. 836*).

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 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 industrial production detail disappointed market expectations and deteriorated sharply in the context of downside, prior-period revisions. Such was reviewed in *Commentary No. 840*. *Commentary No. 839* provided an opening salvo of comments on the November 8th election and potential aftermath for the economy and the markets, which is expanded upon in today's *Opening Comments*. Consumer liquidity conditions also were updated, along with a review of September 2016 nominal Retail Sales and the PPI.

September employment and unemployment circumstances were covered 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 the *Opening Comments* of *No. 839*, 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.

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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 the industrial production detail (*No. 840*) and 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 4th was considered in *Commentary No. 837* and is discussed further in today's *Opening Comments*.

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 on November 2nd—the last formal opportunity prior to the November 8th election—appears to be out of consideration, with market expectations for a rate hike now centering on December 2016. Nonetheless, 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—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, while the September CPI was spiked by gasoline prices and positive seasonal adjustments. The October CPI looks to be similarly destined. 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:

Residential Construction—Housing Starts (September 2016). Previously noted, the Census Bureau will release September 2016 residential construction detail, including Housing Starts, tomorrow, 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. Consensus estimates settle have settled on the upside, but they remain 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 *Commentary No. 839*, 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.

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 *Commentary No. 839*. 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).

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.

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