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

COMMENTARY NUMBER 846
General Comments, Election, Consumer Liquidity

November 11, 2016

Markets Have Responded Positively to the Trump Victory, Although Surging Early-November Consumer Sentiment Was Surveyed Pre-Election

Election Polling Confirmed Continuing, Non-Recovering Economic Activity

Fiscal Stimulus Usually Takes Nine-Plus Months to Kick In

Difficulties Loom in Balancing Federal Fiscal Conditions

Federal Reserve Remains Beset by Systemic Liquidity Crises

Physical Gold Remains the Primary Hedge Against Still-Looming Dollar/Inflation Crises

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PLEASE NOTE: The next regular Commentary*, scheduled for Tuesday, November 15th, will review October Nominal Retail Sales, with subsequent* Commentaries *on Wednesday, November 16th covering October Industrial Production and the PPI, and on Thursday November 17th covering the October CPI, Real Retail Sales and Housing Starts.*

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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OPENING COMMENTS AND EXECUTIVE SUMMARY

Trump's "Surprise" Win Reflected an Economically-Strapped Electorate. Congratulations to Mr. Trump on winning an extraordinarily difficult and hard-fought battle for the White House, along with retaining control of Congress. We wish him well, with hopes for a most-successful Presidency.

As background, I consider myself to be an old-line conservative Republican with a Libertarian bent, and do my best to keep personal politics out of my writing. That said, exit polls from the presidential election indicated the economy was the primary concern for voters. Trump had paid attention to the pocketbook issues that usually drive national elections. He recognized that despite happy headline numbers published by the government and touted by the Fed and Wall Street, underlying economic reality remained that Main Street U.S.A. continued to suffer in non-recovering economic stagnation, subsequent to the economic collapse into 2009. He addressed those needs and concerns, confounding the politicians and pundits who neither recognized, nor would admit to those underlying systemic stresses.

Pocketbook Issues versus Presidential Elections (1932* to 2016)

All Election Years Where Official Real Disposable Income Growth Was Less Than 3.1%

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

All U.S. Presidential Election Years Since 1930 Where Growth in Real DPI < 3.10%	Real DPI Year/Year Percent Change	Incumbent Party Holding White House: R - Republican D - Democrat	In every U.S. presidential election since 1930, when annual growth in inflation-adjusted (real) disposable income fell below 3.10%, the incumbent party holding the White House lost the White House. Election Results for Party Holding White House**
1932	-13.09%	R-Hoover	Hoover lost to Roosevelt.
1960	2.62%	R-Eisenhower	Nixon lost to Kennedy.
1976	3.08%	R-Ford	Ford lost to Carter.
1980	0.72%	D-Carter	Carter lost to Reagan.
2008	1.54%	R-GW Bush	McCain lost to Obama.
2016	2.33%	D-Obama	Clinton lost to Trump.

* 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 (2016 is third-quarter 2016).

** In Presidential Elections with DPI below 3.10%, the White House incumbent party also lost seats in both the House and Senate, except in 1960 and 2016. In 1960, with Nixon Losing to Kennedy, Republican seats were lost in the House but gained in the Senate. In 2016, with Clinton losing to Trump, there was small net shift in seats, a final count is pending, but Republicans retained control of both Houses.

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Once Again, Main Street U.S.A. Voted its Pocketbook. Updating *Commentary No. 839*, personal financial circumstances tend to dominate national elections more than any other factor, when they are particularly negative or positive. Financial circumstances for the average voter have remained deeply troubled, and that turned the vote against the Democrats, the incumbents holding the White House.

Detailed in the preceding table, when negative pocketbook issues have dominated voter concerns, Main Street U.S.A. historically has had an extraordinarily good track record in recognizing underlying economic reality, reflecting same with electoral swings against the incumbent party in presidential races (see *Commentary No. 672*). Separately, election exit polls from 2008 to date for presidential, as well as midterm elections, have generated readings of the public's view of the third-quarter election-year economic activity, which generally has been consistent with quarterly contractions, not with the booming quarterly or annual growth seen in the purported post-2009 economic recovery.

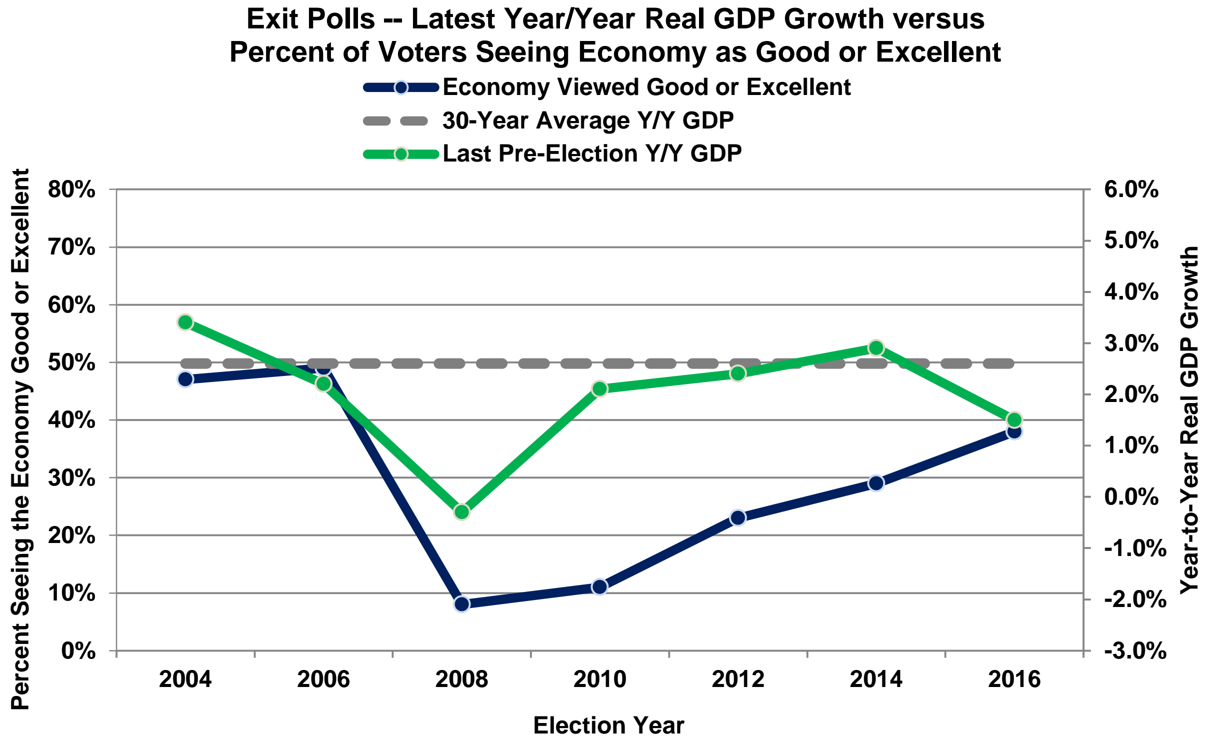
Since the 1932 presidential election (using the earliest available reporting of the current official version of disposable income), every time annual real disposable income (DPI) has been below 3.10%, the incumbent party has lost the White House, and usually has lost seats in both the House and Senate. I used an upside 2.9% limit in the not-updated table in *Commentary No. 839*, because real DPI levels below 2.9% tended to delineate House and Senate gains or losses, but the twenty-two presidential races since 1932 have been defined by the 3.10% level. Every time DPI growth has been below 3.10%, the incumbent party has lost (six elections). In every election where the DPI has been above 3.10%, the incumbent party has won (fourteen elections), except for two elections, in 1952 when Eisenhower beat Stevenson (DPI = 3.46%), and in 1992 when Clinton beat Bush (DPI = 4.28%). That 1992 number, though, was in the circumstance of rigged data.

Exit Polling Indicated, Non-Recovered Economic Activity. Plotted in *Graphs 1* and *2*, the respective green and red lines reflect the latest estimates of headline third-quarter GDP growth in a given election year, which were 1.5% year-to-year and 2.9% annualized quarter-to-quarter in initial third-quarter 2016 GDP reporting. The blue line with the circle points shows the exit-poll readings 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 2.6% for the GDP (thirty-year average of real annualized quarterly and year-to-year growth).

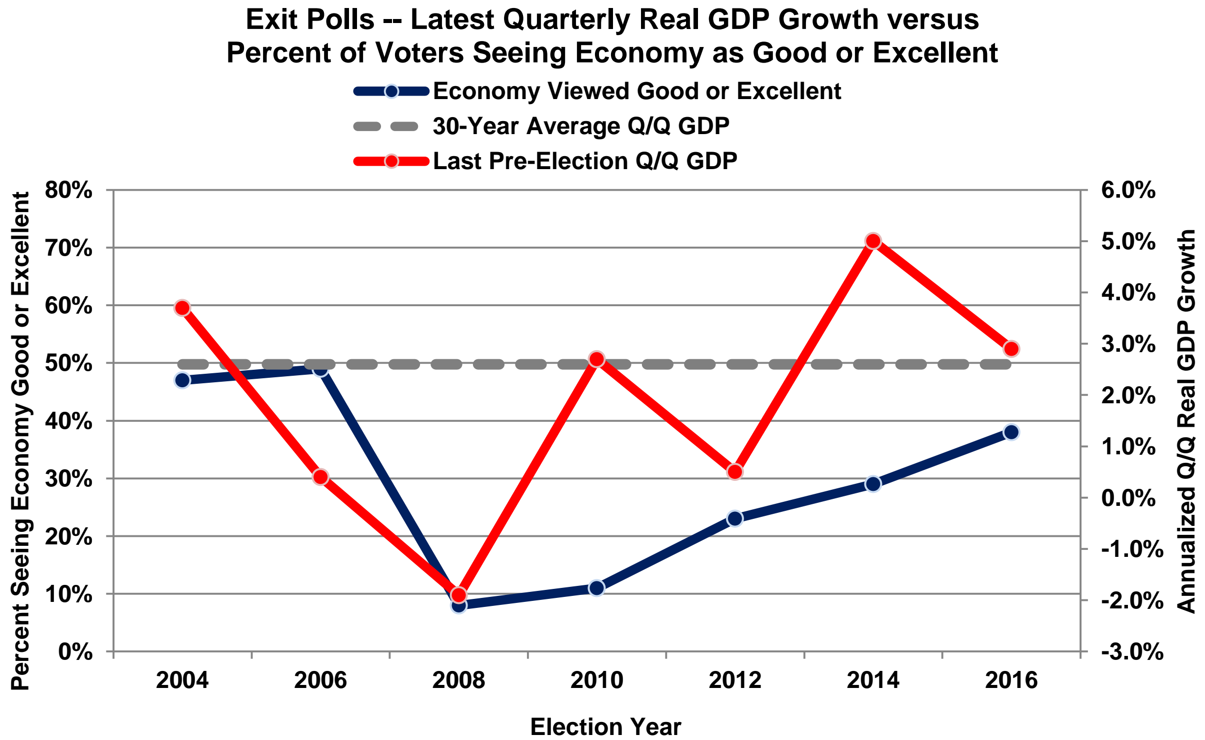
In more-normal economic times, such as seen in 2004 and early-2006, exit polls from the presidential or midterm elections of those years showed about half the voters rating the national economy as "excellent or good," with a 50% rating there being average. Not too surprisingly, that assessment of "excellent 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, to 29% in 2014 and to 38% in 2016, despite the purported robust economic recovery and continuing expansion in GDP activity.

As with the 2010, 2012 and 2014 elections, Main Street U.S.A. was not looking at a fully-recovered and booming economy in third-quarter 2016, as of the November 8th election. The exit-poll economic rating was consistent with stagnant, real third-quarter GDP activity, a quarter that had ended on September 29th, more than a month before the election. Voters certainly did not believe the above-average 2.9% third-quarter growth published the week before the election. The economy has not recovered and is faltering anew, while current circumstances remain sharply negative for personal finances (see *Consumer Liquidity Conditions* ... in a later section). Again, the exit polls showed the economy to be the primary issue among voters in the election.

Graph 1: Presidential and Mid-Term Elections versus Year-to-Year GDP and Perceived Economic Reality



Graph 2: Presidential and Mid-Term Elections versus Quarterly GDP and Perceived Economic Reality



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Trump Administration Should Move Quickly in Many Areas, but It Also Faces Major Difficulties. With control of both the Executive and presumably the Legislative branches of government, Mr. Trump should be able to move ahead rapidly with many agenda, including fiscal economic stimulus and the recasting of trade, immigration and healthcare policies. He also should be able to fill the vacancy on the Supreme Court, and the two empty seats on the Board of Governors of the Federal Reserve. Fed Chair Janet Yellen, though, likely will complete her term as chairman into March 2018.

Actions to stimulate the economy, however, usually take nine months or so to work through the system. Accordingly, with Mr. Trump taking office on January 20, 2017, any upturn in activity from new federal stimulus likely will not surface until early-2018. Therein are not so happy near-term implications for major problem areas such as Fed policy and the federal budget deficit.

Mr. Trump will have to deal with Federal Reserve's global, financial-system liquidity crisis and potential risk of systemic collapse. He has inherited a system temporarily held together by panicked, emergency stopgap measures put in place by prior administrations and Fed officials, who had no grand strategy other than to buy a limited amount of time. They had to save the banking system at any and all costs, and have done so, temporarily.

With the U.S. economy still likely to be in downturn for the near future, mounting stresses on systemic liquidity should force the Fed back into an expanded quantitative easing, irrespective of any near-term rate hike and irrespective of implications for U.S. dollar debasement and rising domestic inflation. Again, actions needed to save the system will be taken at any cost.

In order to salvage any prospects of longer-range domestic economic health and financial solvency, the new Administration also has to address the long-range solvency issues of the U.S. government. Such requires bringing the current and future fiscal operations into balance, which will be a tremendous political undertaking, even with titular control of Congress. Budget-reducing tax-receipt flows will await the actual upturn in business activity.

From a practical standpoint, these extraordinarily difficult issues would be tempered some by an environment of robust economic growth. Accordingly, look for rapid action to boost the economy shortly after the Inauguration.

These issues will be discussed in depth in the pending *Special Report*, yet, massive dollar debasement remains the likely outcome of the Fed and long-term U.S. solvency issues. Holding physical gold remains the primary hedge through those difficult times ahead.

Today's *Commentary* (November 11th). The balance of these *Opening Comments* provides an update to Consumer Liquidity conditions, reflecting September Consumer Credit Outstanding and the early-November estimate of the University of Michigan's Consumer Sentiment Index. With no major economic releases in the election week, there is no *Reporting Detail* section today.

The *Week and Month Ahead* reviews next week's releases of the October CPI and PPI, real and nominal Retail Sales and New Residential Construction (Housing Starts).

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Liquidity Conditions Continue to Constrain Individual 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, where the issues generally continue to intensify. These same conditions have intensified or have reflected deteriorating consumer attitudes and pocket-book issues, all of which contributed to the anti-incumbent electoral pressures.

This update of consumer conditions and liquidity (previously fully updated in *Commentary No. 833*), covers the October detail on the Conference Board's Consumer-Confidence Index® (released October 25th) and the advance-November 2016 University of Michigan's Consumer Sentiment Index (released this morning, November 11th). Also covered are the updated graphs for the Federal Reserve's Consumer Credit Outstanding series through September 2016 (updated November 7th).

Generally, the higher and stronger these 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, stagnating again, along with the pickup in consumer inflation (see the discussion with *Graph 3*).

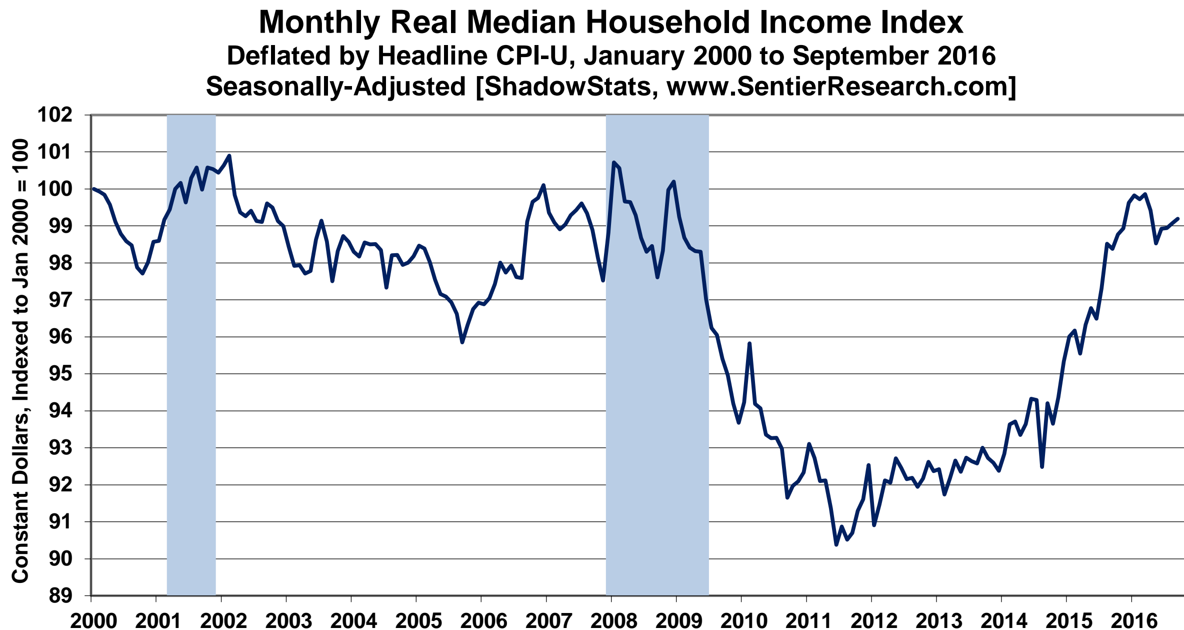
Still, these underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. Never truly recovering in the post-Panic of 2008 era, limited growth in household income and credit, and a still generally, faltering consumer outlook, have eviscerated 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 U.S. GDP activity.

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, where that reality is evident in more-meaningful series—not the GDP—as discussed in *Commentary No. 844*. Irrespective of the headline, gimmicked boost to third-quarter 2016 GDP growth reported October 28th, there has been no economic recovery, and there remains no chance of significant, broad economic growth without a fundamental upturn in consumer- and banking-liquidity conditions.

Monthly Household Income Measure Still Signals Broad-Based Economic Difficulties. Shown in *Graph 3* is the most-recent monthly real median household income detail through September 2016. 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. Stagnating at the moment, statistically-insignificant flutterings have continued in June, July, August and September 2016.

Graph 3: Monthly Real Median Household Income through September 2016



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 turning down anew, as headline monthly consumer inflation continues to pick-up.

Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash generally was used to help pay down unsustainable debt or other obligations, not to fuel new consumption. Again, the effects of lower gasoline prices have bottomed out and reversed, pushing headline consumer inflation higher.

This measure of real monthly median household income generally can be considered as a monthly version of the annual detail shown in *Graph 4*, which was updated recently for 2015 detail (see the full analysis of the 2015 annual household income reporting in *Commentary No. 833*).

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 4*, 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.

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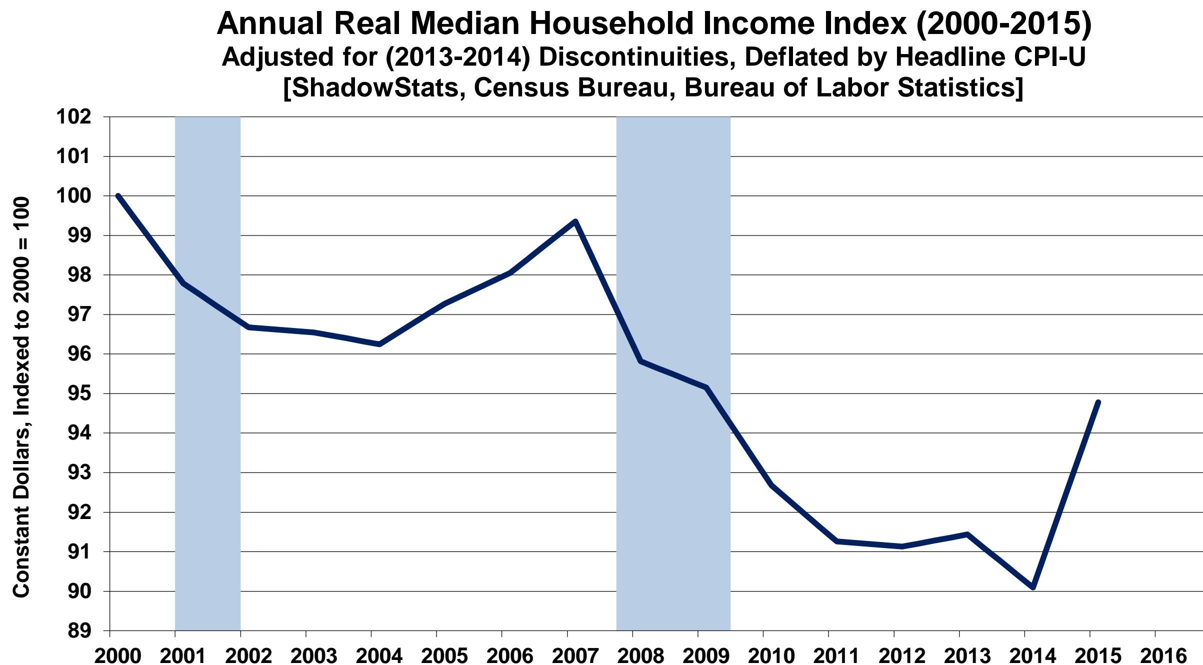
Graph 4: Annual Real Median Household Income through 2015, Discontinuities Removed



Consumer Confidence, Sentiment and Credit. Beyond the real median household income data discussed in the prior section, the detail here incorporates the October 2016 reading for the Conference Board's Consumer-Confidence reading and the early, advance estimate of the November 2016 University of Michigan Consumer-Sentiment measures. Reflected in *Graphs 5* to *7*, where both confidence and sentiment rose in September, they plunged in October, likely reflecting concerns as to the direction of the presidential race. The early-November Consumer Sentiment measure, however, rallied sharply. While such might be expected in post-election surveying, the early-November estimate was surveyed pre-election. Nonetheless, the election results likely will boost full November results, consistent with post-election stock-market reaction.

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph 5*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph 6*) jumped and eased in their respective August readings, but both measures rose in September, only to collapse in October, with an early-November jump in sentiment. The three-month moving averages in both series continued to hold below their respective March/February 2015 near-term peaks.

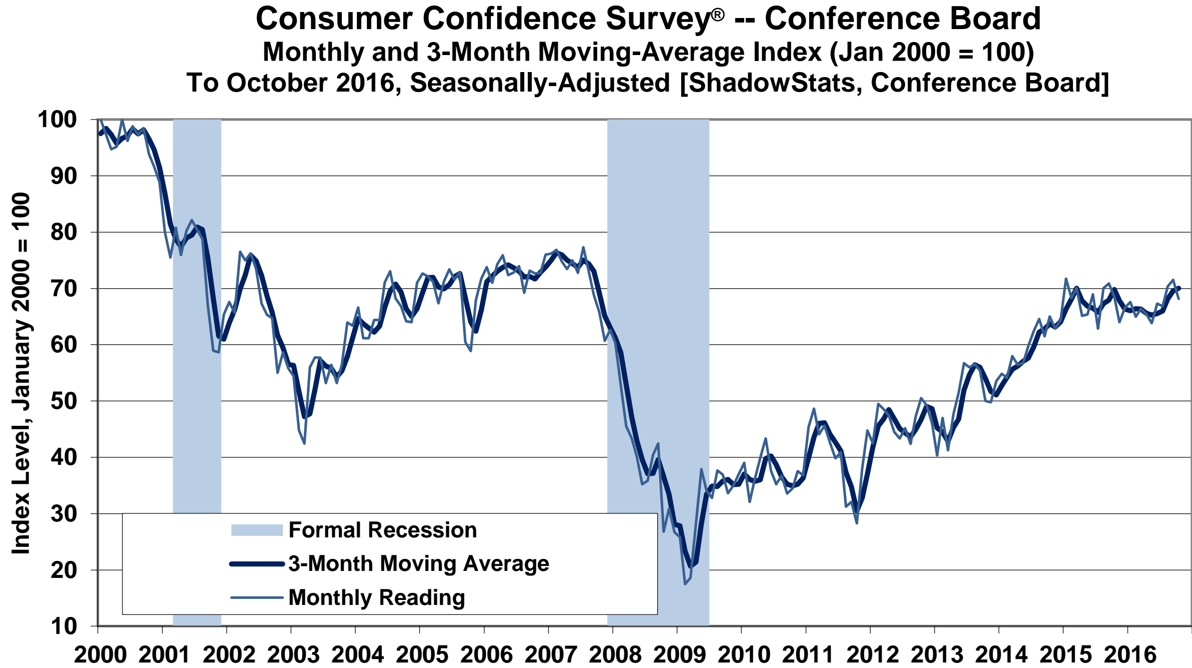
Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs 5* to *7* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index® is set with 1985 = 100, while the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

Both series also have continued to hold off near-term peaks, as smoothed for six-month moving-average readings (*Graph 7*), with both measures down from their June 2015 near-term highs.

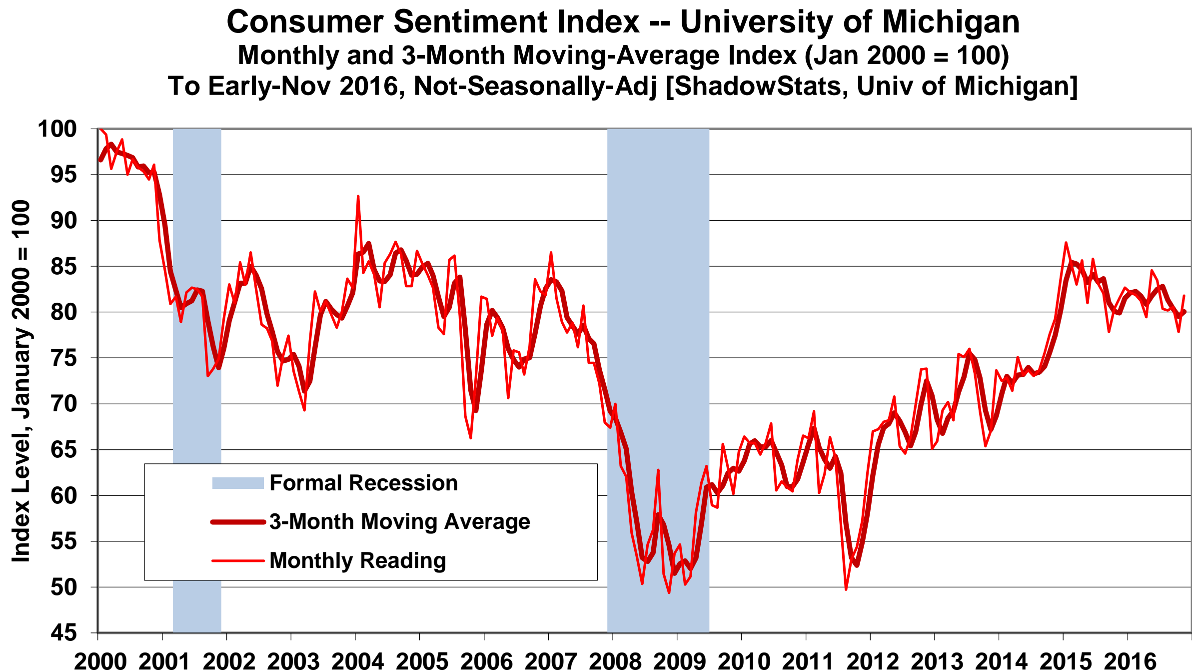
The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in *Commentary No. 764*), and often are highly volatile month-to-month, as a result. With

increasingly-negative, unstable and uncertain headline financial and economic reporting, and beyond any immediate post-election gyrations, successive negative hits to both the confidence and sentiment readings remain increasingly likely in the months ahead, once again, primarily from the faltering economy.

Graph 5: Consumer Confidence to October 2016



Graph 6: Consumer Sentiment to Early-November 2016



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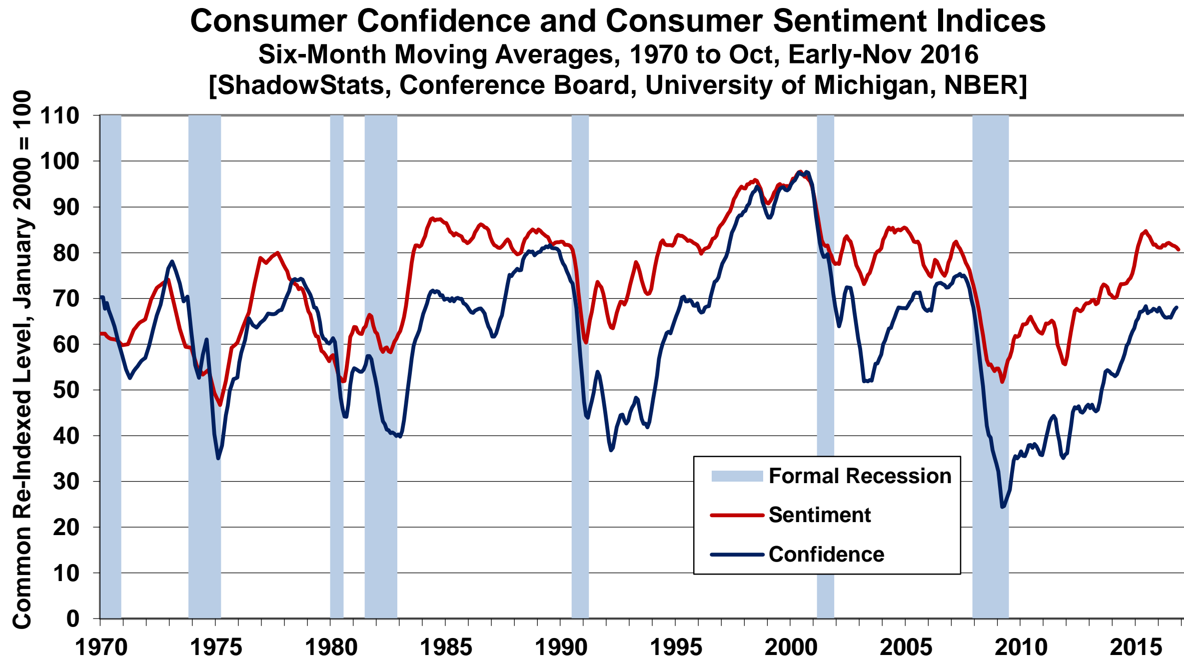
Smoothed for irregular, short-term volatility, the two series remain at levels seen typically in recessions. Suggested in *Graph 7*—plotted for the last 45 years—the latest readings of Confidence and Sentiment generally have not recovered levels preceding most formal recessions of the last four decades. Broadly, the consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, and for second-and third-quarter 2015.

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



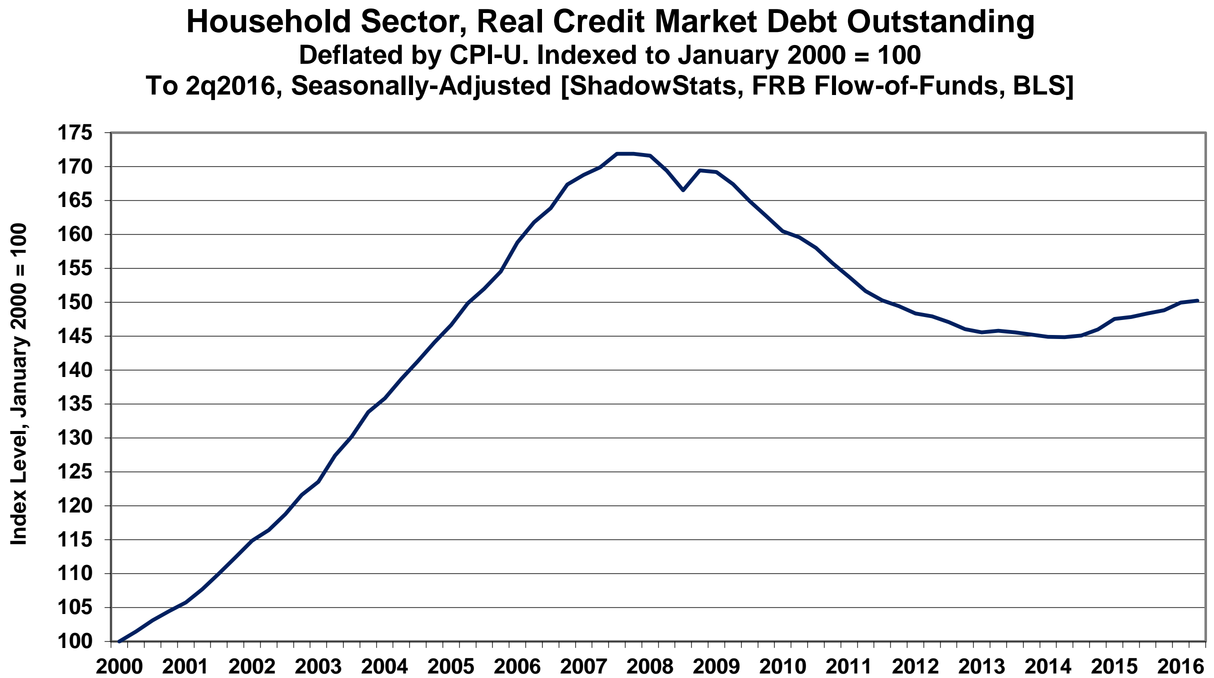
The final four graphs address consumer borrowing. Debt expansion can help make up for a shortfall in income growth. Shown in *Graph 8* of *Household Sector, Real Credit Market Debt Outstanding*, household debt declined in the period following the Panic of 2008, and it has not recovered, based on the Federal Reserve's flow-of-funds accounting 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.

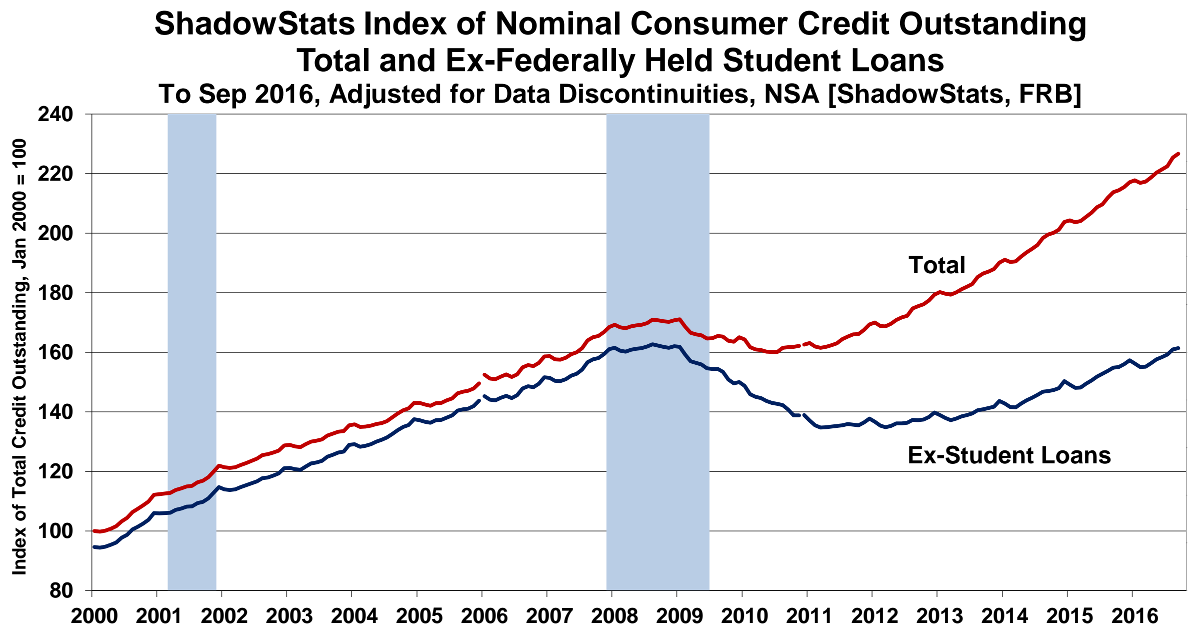
The slight upturn seen in the series through 2015 and into first-half 2106, was due primarily to gasoline-price-driven, negative CPI inflation, which had continued impact on the system through the second quarter. Current activity has also reflected surging student loans, as shown in the *Graphs 9* to *11*.

Shown through September 2016 reporting, *Graph 9* of monthly Consumer Credit Outstanding is a subcomponent of *Graph 8* on real Household Sector debt. Where *Graph 9* reflects the nominal reporting, not adjusted for inflation, inflation-adjusted real activity for Consumer Credit Outstanding is shown both in terms of level (Graph *10*) and in terms of year-to-year change (*Graph 11*).

Graph 8: Household Sector, Real Credit Market Debt Outstanding through Second-Quarter 2016



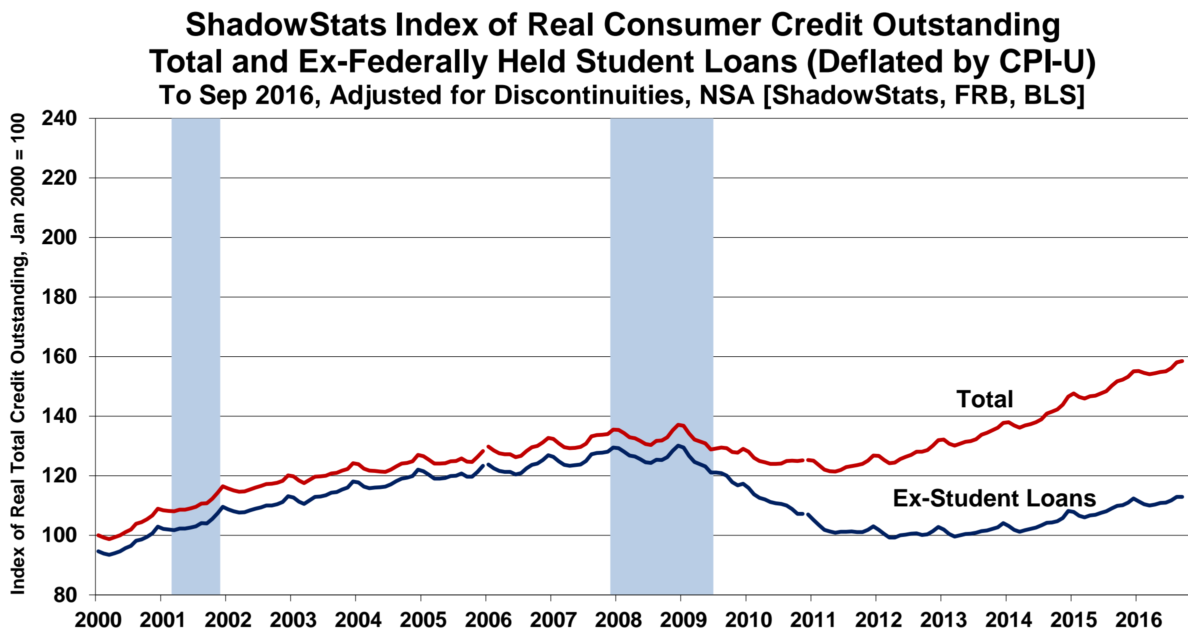
Graph 9: Nominal Consumer Credit Outstanding through September 2016



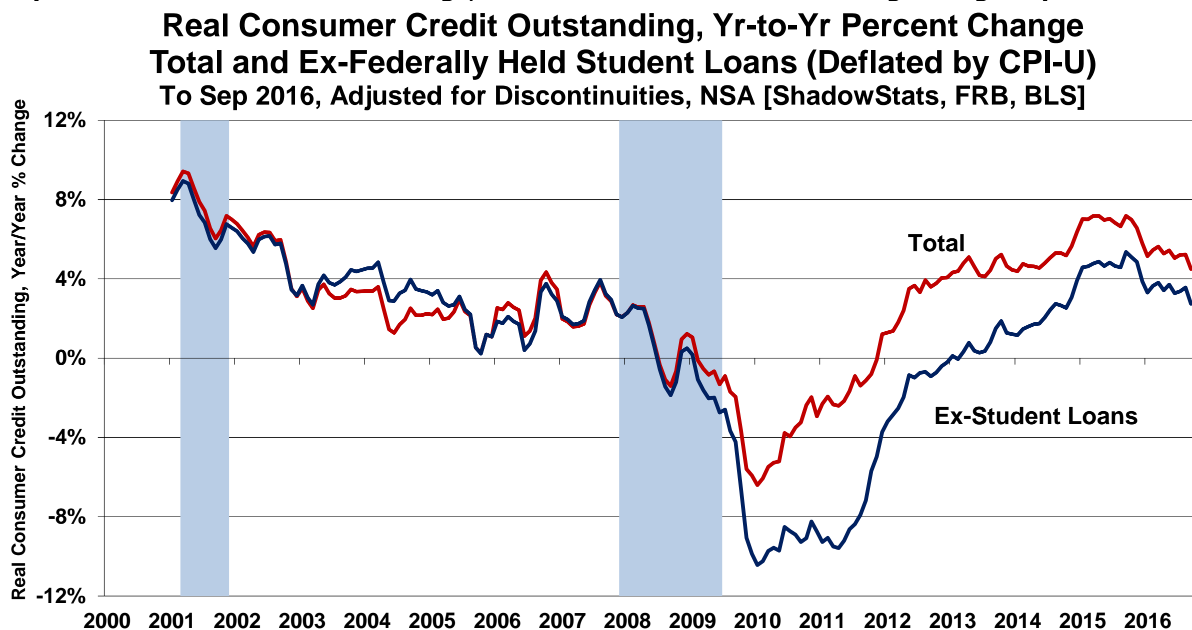
Post-2008 Panic, outstanding consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption or housing growth. Although in slow uptrend, the nominal level of Consumer Credit Outstanding (ex-student loans) has not recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis, with the September 2016 and other recent 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, consumer credit outstanding in September 2016 was down from its December 2007 pre-recession peak by 12.8% (-12.8%).

Graph 10: Real Consumer Credit Outstanding through September 2016



Graph 11: Year-to-Year Percent Change, Real Consumer Credit Outstanding through September 2016



Year-to-year growth in *Graph 11* tends to resolve most of the monthly distortions in not-seasonally-adjusted data.

WEEK AND MONTH AHEAD

Despite the Pending Change in Government, Near-Term Economic Deterioration Should Intensify, Increasingly Frustrating Fed Provocateurs, Pummeling the U.S. Dollar and Boosting Gold, Silver and Oil Prices. Despite an upside-gimmicked headline pre-election GDP report, and expectations of better business conditions under the Trump Administration, market expectations for business activity still should continue to falter, amidst still intensifying, negative headline economic reporting. Likely new fiscal stimulus has at least a nine-month lead-time before its impact will surface in headline economic activity, most likely early in 2018. The new administration will have a difficult time working with or around the Federal Reserve's global banking-system liquidity woes, as well as its own Treasury's funding needs as the federal deficit swells initially with new spending and tax cuts, before hoped-for increased tax revenues begin to flow in from the strengthened economy.

Irrespective of continuing talk by some FOMC members of a near-term rate hike, the still-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, post-election. The circumstance remains in play, even if the FOMC hikes rates at its December meeting, which ends on December 14th.

Covered in *Commentary No. 845*, October employment and unemployment and September construction spending did offer a brightening economic outlook. The sharp narrowing in the September and third-quarter 2016 trade deficit generally reflected nonrecurring elements of highly suspect quality.

Reviewed in *Commentary No. 844*, the above-consensus "advance" estimate of third-quarter 2016 GDP remained well above any realistic estimate of domestic U.S. economic activity. As with the October labor conditions, other headline detail from that just-closed month likely will surprise on the downside, with negative revisions also likely to follow for the third-quarter GDP in its post-election revisions.

Commentary No. 843 offered a *Special Comment* on background economic circumstances and the then pending election, following up on *No. 841*. Headline related details from September new- and existing-home sales and from new orders for durable goods reporting also were reviewed. That followed *Commentary No. 842*, which assessed the negative shifts in monthly, quarterly and annual growth patterns of the housing-starts series.

Noted in *Commentary No. 841*, consumer inflation started to rebound, along with higher gasoline prices, yet the economy continued to falter as indicated in September freight activity, and as seen in the headline detail of September housing starts. The *Special Comments* in *No. 841* also looked a little deeper into the

likely impact of unusually protracted and negative economic conditions on the presidential election and on the post-election environment for the U.S. dollar and precious metals.

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 the opening salvo of comments on the November 8th election and potential aftermath for the economy and the markets. 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.

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 otherwise have been reviewed regularly 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*.

Post-election market activity has seen positive boosts to the equity markets and the U.S. dollar, with negative impact on prices of precious metals. Market concerns as to the Federal Reserve's quagmire should resurface fairly quickly, where 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 pre-election, weaker-than-expected headline economic data or suggestions of a less-aggressive tightening stance by the Fed. Then, Fed rate-hike jawboning 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 was discussed further in *No. 841*, in the context of the evolving domestic political conditions.

Again, though, the fundamental liquidity issues facing the Fed remain dominated by 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.

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dollar. Irrespective of any near-term, one-shot rate hike, 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). Although such was not in place with the headline, "advance" reporting of third-quarter 2016, with the exception of second-quarter 2016 GDI, downside revisions loom there in the next two months, with quarterly economic contractions fair bets in fourth-quarter 2016 and first-quarter 2017.

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 (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,* and as updated on October 24th: *Crudele*. In the 1990s, the Census Bureau and BLS played political-reporting games with the nature of statistical

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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:

Nominal and Real Retail Sales (October 2016). The Census Bureau will release October 2016 nominal (not-adjusted-for-inflation) Retail Sales on Tuesday, November 15th, which will be covered in *Commentary No. 847* of that date. Detail on real (adjusted-for-inflation) Retail Sales will be covered in *Commentary No. 849* of November 17th, coincident with the release by the Bureau of Labor Statistics (BLS) of the October 2016 Consumer Price Index (CPI-U), as discussed below.

With another likely solid increase in the monthly and annual CPI-U, there is a parallel chance for real sales growth in October to be more-negative or weaker than the headline nominal sales activity, with a deepening recession signal in the historically low-level, annual real Retail Sales growth.

Market expectations for headline nominal October Retail Sales appear to be settling around a strong monthly gain, reflecting positive vehicle sales and mixed retail-store activity. Despite the nearly-perpetual happy consensus outlook, an outright nominal monthly sales contraction in October 2016 and downside revisions to September and August activity are within the realistic scope of underlying reality. Likely not assessed in consensus prognostications is the apparent slowdown in October business activity surrounding uncertainties created by the then unfolding and volatile election process.

Discussed in the *Consumer Liquidity* update 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 an income shortfall, the liquidity-strapped U.S. consumer is unable to sustain growth in broad economic activity, including 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.

Index of Industrial Production (October 2016). The Federal Reserve Board will publish its estimate of October 2016 Industrial Production activity on Wednesday, November 16th, with coverage in *Commentary No. 848* of that date. Headline reporting likely will resume a monthly contraction (following a minimal gain in September, a decline in August and gains in July and June), along with continued and uninterrupted annual contractions (the 14th straight month). While consensus expectations should 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.

Producer Price Index—PPI (October 2016). The Bureau of Labor Statistics (BLS) will release the October 2016 PPI also on Wednesday, November 16th, with detail covered in *Commentary No. 848* of that date. Odds favor a solid headline gain in wholesale inflation, at least on the goods side of the reporting, due to stronger oil prices and a positive effect from related seasonal-factor adjustments.

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Unadjusted oil prices increased in October 2016, along with higher gasoline prices. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices rose by 6.3% and 10.2%. That was accompanied by a 5.6% increase in unadjusted, monthly-average wholesale gasoline prices (Department of Energy). Where PPI seasonal adjustments for energy costs in October are strongly positive, that should contribute to pushing the adjusted Final Demand Goods component of the PPI to the plus side.

Energy- and other goods-related inflation will be supplemented or hit by counterintuitive "inflation" or "deflation" in the dominant services sector, from rising or falling "margins." Guesstimation in that services sector remains highly problematic. Counterintuitive pricing pressures from shrinking profit margins with the sharply rising oil prices, for example are discussed in *Inflation that Is More Theoretical than Real World?* in Commentary No. 839.

Consumer Price Index—CPI (October 2016). The Bureau of Labor Statistics (BLS) will release the October 2016 CPI on Thursday, November 17th, which will be covered in *Commentary No. 849* of that date. The headline October CPI-U is a fair bet to a show strong month-to-month increase, perhaps up by 0.3%, again reflecting rising gasoline prices exacerbated by strongly-positive seasonal adjustments to same. Headline year-to-year annual inflation for October 2016 likely will increase to about 1.6%, versus 1.5% in September 2016.

Further Positive Monthly Inflation Impact from Gasoline Prices. Average gasoline prices rose in October 2016, up by 1.38% for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). Where BLS seasonal adjustments to gasoline prices in October are strongly on the plus-side, they should exacerbate the unadjusted price increase in gasoline, with seasonally-adjusted gasoline prices contributing roughly a positive 0.19% to the headline monthly change in the CPI-U. Boosted further 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. 841*, year-to-year, CPI-U inflation would increase or decrease in the headline 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, a 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 1.6%, plus-or-minus, depending on rounding.

Residential Construction—Housing Starts (October 2016). The Census Bureau will release October 2016 residential construction detail, including Housing Starts, on Thursday, November 17th, which will be covered in *Commentary No. 849* 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.

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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 September 2016 activity having been down by 54% (-54%) 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 *Consumer Liquidity* update 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.

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 this month, with planned publication to be detailed next week. 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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