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

COMMENTARY NUMBER 849
October CPI, Housing Starts, Post-Election Markets, Economy and FOMC

November 20, 2016

October 2016 Annual Inflation Firmed by Another 0.1% to 0.2%, with CPI-U at 1.6%, CPI-W at 1.4% and ShadowStats at 9.3%

Census Bureau Produced Nonsensical Housing and Retail Sales Gains

26% Monthly Surge in October Housing Starts Reflected Extreme Reporting Instability/Volatility Last Seen at Depths of 1980 Recession

Smoothed Housing Starts and Permits Held in Non-Recovering, Low-Level Stagnation; Activity Down Respectively by 42% (-42%) and 46% (-46%) from Pre-Recession Peaks

Inflation-Adjusted Real Retail Sales Gained 0.47%, Bloated by and Against a Not-Credible 0.82% Monthly Surge in Nominal October Sales

October Real Earnings Fell for Third Straight Month, Down in Six of Last Seven Months

"Post-Election" Dollar Rally Began Before the First Voting

Dollar Doom Is Likely in 2017 Due to a Dysfunctional and Deceptive Federal Reserve

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PLEASE NOTE: The next regular Commentary, *scheduled for Wednesday, November 23rd, will cover October New Orders for Durable Goods and New- and Existing-Home Sales.*

I apologize for the delayed publication of this Commentary, *affected by a combination of computer problems and a very bad cold.*

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

OPENING COMMENTS AND EXECUTIVE SUMMARY

Economy Still Turning Down, Despite Census-Bureau Spiked Data. Underlying economic fundamentals have not shifted meaningfully, recently, despite headline surges in retail sales and housing starts out of the Census Bureau in the last week. Had such unusually-large gains been reported the month before, questions of pre-election political manipulations would have arisen (the initial September retail sales report in mid-October was strong enough to stir suspicions). Seen post-election, these numbers could reflect unusually large reporting instabilities, surveying inaccuracies, incompetency or bad-quality, underlying assumptions. They also could be a parting shot at the incoming administration, showing a sudden economic recovery as the old administration leaves, setting up the new administration with a new recession. The Clinton Administration did that with late changes to the Census Bureau's Current Population Survey, before George Bush took office. I suspect, though, the first circumstance, with the system's reporting instabilities, surveying inaccuracies, etc. likely to reverse out in the months ahead. The next month or two of reporting should tell the story.

Post-Election Dollar Rally and Gold Selling? Potentially related to the preceding, however, the post-election surge in the U.S. dollar, and a related sell-off in gold and silver, popularly have been attributed to Mr. Trump's victory. While such would be understandable, the dollar rally and gold selling began the day before the voting that led to the Republican upset. More likely at present are U.S. Central Bank games aimed at rallying the dollar, killing gold and silver and raising interest rates on December 14th. While the phony post-election economic strength certainly is factor in boosting rate-hike expectations, keep in mind that the Federal Reserve's Federal Open Market Committee (FOMC) faces likely not-so-robust November labor conditions on December 2nd and the Fed's own, still-weakening industrial production measure on December 14th, the last and decisive day of the December FOMC meeting.

Discussed in today's (November 20th) *Hyperinflation Watch*, whether or not the FOMC hikes rates next month, and there is a strong chance they will do that, the next likely monetary move should be back towards expanded quantitative easing, as the economy continues to falter, increasing banking- and financial-system liquidity stresses. A rate hike reflects only the targeted federal funds rate; it does not preclude quantitative easing as practiced by the Fed to provide liquidity to the global banking system in recent years. Therein lies the potential for a massive sell-off in the U.S. dollar, and for massive flight to, and related price gains in gold and silver in 2017.

Today's *Commentary* (November 20th). The balance of these *Opening Comments* covers summary detail of the October 2016 CPI and special graphs of the related real retail sales and earnings, and October residential construction. Those areas are expanded upon fully in the *Reporting Detail*.

Hyperinflation Watch reviews possible and likely unfolding FOMC and economic and financial circumstances in year ahead, along with updated detail on the Saint Louis Fed's Monetary Base.

The *Week and Month Ahead* previews next week's reporting of October durable goods orders and new-and-existing home sales, and details the publication schedule for the month-end, comprehensive *Special Commentary*.

Consumer Price Index (CPI)—October 2016—Headline Inflation Took Another Strong Jump, Along With Gasoline Prices. Headline October 2016 CPI-U monthly inflation of 0.4% was the consensus outlook. With negligible seasonally-adjusted deflation in food, the headline gain again was generated by price inflation in the energy sector and broad "core" category, with core inflation covering everything except food and energy.

Separately, although headline annual CPI-U inflation rose to 1.6% in October 2016, versus 1.5% in September 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 October 2016 of 5.2%, based on 1990 methodologies, and 9.3%, based on 1980 methodologies.

Longer-Range Inflation Outlook. Despite the strong U.S. dollar rally following the election, a tremendous threat continues to the dollar and systemic liquidity and stability, tied to the U.S. Federal Reserve's inability to resolve the 2008 financial collapse, other than having bought limited time with emergency stopgap measures. That additional time forestalled financial-system collapse, but that time has about run its limits. The domestic and global banking systems still have not been stabilized in a healthy or sustainable manner.

Efforts to stimulate a non-recovering U.S. economy, amidst renewed faltering activity, have been nil, up through the advent of the Trump era. Given standard lead times, positive impact from post-inauguration 2017 stimulus packages likely will not have significant effect until early-2018, at the earliest, a time lapse fraught with potential disaster created by an incapacitated Fed, fighting to the death a battle it already lost in the 2008 panic, as discussed in today's *Hyperinflation Watch*.

CPI-U. The headline, seasonally-adjusted October 2016 CPI-U rose by 0.36% month-to-month, following a headline 0.29% gain in September, versus a 0.20% gain in August, and against an "unchanged" monthly decline of 0.04% (-0.04%) in July.

The adjusted headline October 2016 inflation increase was boosted by positive seasonal adjustments to the energy sector, but otherwise was softened again by negative seasonal adjustments to the "core" (ex-food and energy) and food sectors. On an unadjusted basis, monthly October 2016 CPI-U rose by 0.12%, having gained 0.24% in September and 0.09% in August and declined by 0.16% (-0.16%) in July.

Encompassed by the seasonally-adjusted monthly CPI-U gain of 0.36% in October 2016 [up by an unadjusted 0.12%], October food inflation declined by 0.03% (-0.03%) [up by 0.06% unadjusted], October energy inflation rose by a seasonally-adjusted 3.48% [down by an unadjusted 0.54% (-0.54%)], while the adjusted October "core" (ex-food and energy) inflation rate rose by 0.15% [up by 0.20% unadjusted]. Separately, "core" CPI-U inflation showed unadjusted year-to-year inflation of 2.14% in October 2016, versus 2.21% in September 2016, 2.32% in August 2016 and 2.19% in July 2016.

Not seasonally adjusted, October 2016 year-to-year inflation for the CPI-U rose to 1.64%, versus 1.46% in September 2016, 1.06% in August 2016 and 0.83% in July 2016.

CPI-W. The October 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 0.40%, following gains of 0.34% in September and 0.18% in August, and a decline of 0.09% (-0.09%) in July. On an unadjusted basis, the monthly CPI-W rose by 0.10% in October 2016, having gained 0.25% in September and 0.06% in August, and having declined by 0.22% (-0.22%) in July.

Unadjusted, year-to-year change in October 2016 CPI-W was a gain of 1.45%, up from 1.22% in September 2016, 0.66% in August 2016 and 0.41% in July 2016.

Chained-CPI-U. The headline C-CPI-U is not seasonally adjusted, but it is subject to revisions every quarter for the prior year, as published with the October 2016 detail. Year-to-year unadjusted C-CPI-U inflation was revised higher by roughly 0.05% per month, from October 2015 to September 2016. Headline October 2016 C-CPI-U annual inflation came in at 1.48%, versus upwardly revised gains of 1.27% in September 2016, 0.80% in August 2016 and 0.57% 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 5.2% in October 2016, versus 5.0% in September 2016, versus 4.6% in August 2016.

The October 2016 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 9.3% year-to-year, versus 9.1% in September 2016 and 8.7% in August 2016.

Real (Inflation-Adjusted) Retail Sales—October 2016—Up by 0.47% Month-to-Month, by 2.61% Year-to-Year. Discussed in *Commentary No. 847*, nominal monthly retail sales in October 2016 rose by a heavily-bloated and not credible 0.82%, against an upwardly revised 0.96% in September 2016 and a revised, narrower decline of 0.03% (-0.03%) in August. The October 2016 year-to-year nominal retail-sales gain rose to 4.30%, versus upwardly revised annual gains of 3.23% in September 2016 and 2.23% in August 2016.

Headline Detail. The preceding numbers were before any consideration for the effects of inflation. The initial monthly and annual inflation-adjusted real growth rates for October 2016 Retail Sales, and the trends are based on the accompanying detail of the November 18th release of the October 2016 CPI-U.

Based on headline seasonally-adjusted monthly CPI-U gain of 0.36% in October 2016 and gains of 0.29% in September and 0.20% in August, October 2016 real Retail Sales rose by 0.47%, following a revised gain of 0.66% in September and a revised drop of 0.23% (-0.23%) in August 2016.

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, October 2016 real retail sales increased to 2.61%, but the headline nominal October detail was so far removed from reality as not to be credible. September 2016 real retail sales growth revised higher to 1.73%, while August 2016 revised higher to 1.12%. With annual real growth slowing to 1.46% in revised third-quarter 2016 reporting, versus 1.56% in second-quarter 2016 and 1.62% in first-quarter 2016, the recession signal remained intense, consistent with an unfolding economic downturn. Again, the 2.26% implied annual growth for fourth-quarter 2016 is not credible, subject to revision of the next two months of reporting.

Real Retail Sales Graphs, Corrected and Otherwise. In the *Reporting Detail*, *Graphs 20* and *22* show the level of real retail sales activity (deflated by the CPI-U), while *Graphs 21* and *22* shows year-to-year percent change. The apparent "recovery" of headline real retail sales shown in the following *Graph 1* (see also *Graph 20*) 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, renewed slippage into third-quarter 2016 but with another uptick in early fourth-quarter 2016.

Nonetheless, headline real growth in retail sales continued 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.

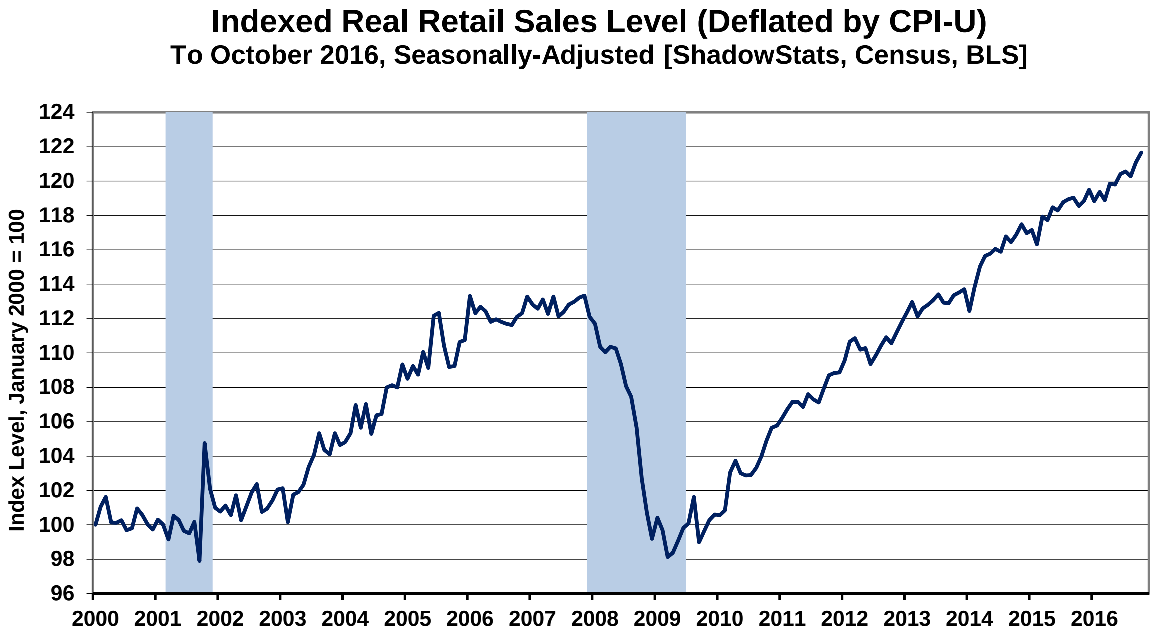
Both of the accompanying graphs are indexed to January 2000 = 100.0 to maintain consistency in the series of graphs related to corrected inflation-adjustment (including the regular plots of the "corrected" industrial production index (see prior *Commentary No. 848*), "corrected" new orders for durable goods (*Commentary No. 843*) and "corrected" GDP (*Commentary No. 844*).

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 again of *Graph 1* with *Graph 20* in the *Reporting Detail* section.

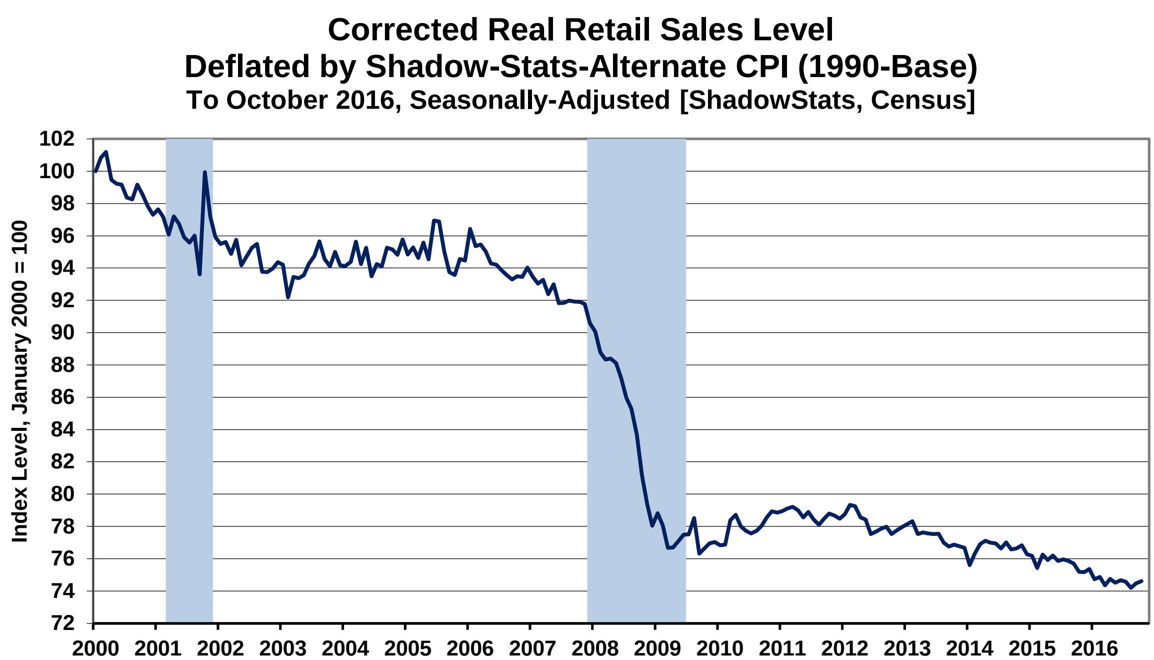
Instead of being deflated by the CPI-U, the "corrected" real retail sales numbers—in *Graph 2*—use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation. With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation and renewed downturn. 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. 846* and

Commentary No. 833), the broad unemployment series (see *Commentary No. 845*) and most housing statistics such as the Housing Starts detail discussed in later sections (see *Graph 7* in particular).

Graph 1: Headline Real Retail Sales Level, Indexed to January 2000 = 100



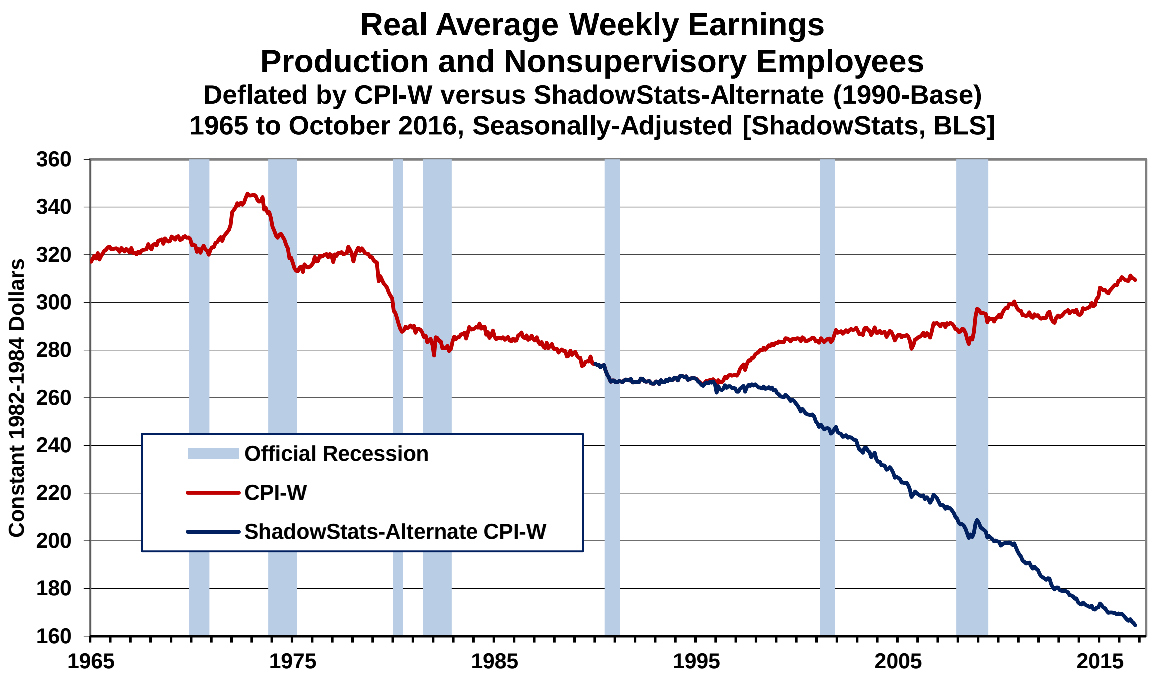
Graph 2: "Corrected" Real Retail Sales Level, Indexed to January 2000 = 100



Real Average Weekly Earnings—October 2016—Real Earnings Fell for the Third Straight Month in the Context of Ongoing, Unstable Reporting. The headline estimate for October 2016 real average weekly earnings was published coincident with the November 18th release of the October CPI-W. In the production and nonsupervisory employees category—the only series for which there is a meaningful history, real average weekly earnings in October 2016 fell by 0.22% (-0.22%) month-to-month, following revised monthly declines of 0.06% (-0.06%) in September and 0.33% (-0.33%) in August and an unrevised monthly gain of 0.72% in July. The October monthly decline was the third consecutive monthly decline, and the sixth month-to-month hit to the series in the last seven months.

Those readings in this unstable series maintained an unrevised second-quarter 2016 annualized quarter-to-quarter contraction of 0.96% (-0.96%), with an upwardly revised third-quarter 2016 annualized real growth pace of 1.68% and an early-trend estimate (based solely on October detail) of a fourth-quarter 2016 annualized real contraction of 1.48% (-1.48%).

Graph 3: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date



Preceding *Graph 3* 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.

Housing Starts—October 2016—Extreme Volatility Not Seen Since Depths of the 1980 Recession. October 2016 housing starts soared by 25.5% in the month, having declined by a revised 9.5% (-9.5%) in September. That was the largest headline monthly upsurge in housing starts since a 29.0% gain in June 1980, at the depths of the 1980 recession. Such volatility is unusual, even for this notoriously-unstable and heavily-revised series, although not as much in the uncertainties of impaired, recession circumstances.

Nonetheless, smoothed and viewed in terms of its six-month moving average, housing starts activity still showed a plunge from its 2006 pre-recession peak to a trough in 2009, followed by a protracted period of up-trending but non-recovering activity, which flattened out in the last year or two (see *Graph 7*, and *Graph 28* and the *Reporting Detail*). Plotted with just the raw, seasonally-adjusted monthly data, the pattern broadly is the same, with the spiked October 2016 level of starts still shy by 42% of recovering its pre-recession peak (see *Graphs 6* and *26*).

October Surge Was Seen Across the Board, With Multiple-Unit Starts More than Recovering the Prior Month's Extreme Decline. In the context of minimal upside revisions to September activity, monthly gains in both single-unit and multiple-unit activity were unusually strong, with aggregate October housing starts up by 25.5% month-to-month and by 23.3% year-to-year, against revised September activity of a monthly and declines of 9.5% (-9.5%) and 11.4% (-11.4%).

The unbelievably strong housing-starts details in October, however, were not foreshadowed or otherwise indicated by the leading and underlying building permits series. The same can be said for September's unusual headline weakness. In the context of negligible, prior-month revisions, October building permits, which theoretically lead housing starts activity by three-to-six months, gained both month-to-month and year-to-year, up by 0.3% in October 2016 for the month, up by 4.6% year-to-year. That was against an unrevised monthly gain in September of 6.3%, and an unrevised annual gain of 8.5%.

Smoothed Numbers. Despite the extreme volatility and instabilities in the Housing Starts series, the general pattern of low-level stagnation continued. Smoothed with a six-month moving-average, the aggregate series remained about as flat as one ever sees, in low-level stagnation, reflecting the most-recent headline detail (*Graphs 7* and *28*), with the same pattern of stability also seen broadly in raw monthly data (*Graphs 6* and *26*). That general pattern also can be viewed in terms of the longer-range historical graph of aggregate activity (*Graph 29* in the *Reporting Detail*). Parallel graphs of monthly and six-month moving average building permits detail are compared there in *Graphs 25* and *27*.

Given the broad pattern of stagnation in both the aggregate starts and permits series, headline total October 2016 activity remained well below any recovery level, with starts down from their January 2006 pre-recession high by 42% (-42%), and with permits down by 46% (-46%) from their September 2005 pre-recession peak activity.

Returning fully to the October 2016 housing starts detail, the dominant, single-unit housing starts component of that series (*Graphs 8* and *9*) remained down by 52% (-52%) from its January 2006 pre-recession peak.

Generally reflected in the smoothed graphs, the various housing-starts series were flat, at a low level of stagnation (*Graph 7* for the aggregate), with low-level stagnation in the six-month-smoothed single-unit activity (*Graph 9*), both with minimal upticks in October. That was balanced by a small downtick in

September and uptick in October in the smoothed multiple-unit starts (*Graph 11*), which had rebounded and held near pre-recession levels.

October 2016 Housing Starts, Headline Reporting. The broadly unstable and highly volatile aggregate Housing Starts series exploded month-to-month in October, in the context of small upside revisions to September levels. The seasonally-adjusted, headline monthly gain of 25.5% in October 2016 housing starts. That was the highest-percent monthly growth rate in 36 years and statistically significant. Such followed a revised, deepened September monthly decline of 9.5% (-9.5%) and a revised decline of 4.4% (-4.4%) in August. Net of prior-period revisions, October 2016 housing starts gained 26.4% for the month, instead of the headline 25.5%. Level-of-activity aggregate detail is plotted in accompanying *Graphs 4* to *7*, and in *Graphs 26, 28* and *29* in the *Reporting Detail*.

Year-to-year change in the seasonally-adjusted, October 2016 aggregate housing-starts measure was a statistically-significant gain of 23.3%, versus a revised, narrowed annual decline of 11.4% (-11.4%) in September 2016, and an upwardly-revised gain of 2.8% in August 2016.

The October 2016 headline monthly gain of 25.5% in total housing starts encompassed a headline gain of 10.7% in in the "one unit" category and an explosion of 74.5% in the "five units or more" category, which more than offset the revised monthly decline of 39.6% (-39.6%) in that same category in September. There is a missing balance in the "two to four units" category, which collapsed by 35.7% (-35.7%) month-to-month in October, but where that category is consider to be too small to be meaningful, it still did affect the aggregates, as discussed later in the broader, aggregate "multiple unit" category.

Housing Starts By-Unit Category. Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit structure housing starts—generally for individual consumption, resulting in new home sales—versus multi-unit structure starts that generally reflect the building of condominiums, rental and apartment units.

Housing starts for single-unit structures in October 2016 rose month-to-month by a statistically-insignificant 10.7%, following an upwardly revised gain of 8.4% in September and an unrevised monthly decline of 5.9% (-5.9%) in August. Net of prior-period revisions, October 2016 single-unit starts rose by 11.0%, instead of the headline 10.7%. October 2016 single-unit starts showed a statistically-significant annual gain of 21.7%, versus an upwardly revised annual gain of 5.7% in September and an unrevised decline in August 2016 of 1.0% (-1.0%) (see *Graphs 6, 7, 10* and *11*).

Housing starts for apartment buildings, condominiums, etc. (generally 5-units-or-more) in October 2016 gained month-to-month by a statistically-significant 74.5%, versus a revised, deepened decline of 39.6% (-39.6%) in September and a shallower decline in August of 4.5% (-4.5%). Net of prior-period revisions, October 2016 starts rose by 78.0%, versus the headline 74.5%.

A statistically-insignificant year-to-year gain of 28.2% in October 2016, followed a revised crash of 41.4% (-41.4%) in September 2016, and a revised 7.1% gain in August 2016.

Expanding the multi-unit housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series).

Nonetheless, the total multi-unit category can be estimated by subtracting the single-unit category from the total category (see *Graphs 4*, *5*, *10* and *11*).

Accordingly, the statistically-significant October 2016 monthly gain of 25.5% in aggregate starts was composed of a statistically-insignificant gain of 10.7% in one-unit structures and a statistically-significant gain of 68.8% in the multiple-unit structures categories (2-units-or-more, including the 5-units-or-more category). In contrast, again, ex-2-units-or-more, the multiple-unit category gained a headline 74.5%.

Regular Housing Starts Graphs. Headline reporting of Housing Starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,323,000 in October 2016, versus an upwardly revised 1,054,000 (previously 1,047,000) in September 2016. The scaling used in the aggregate housing starts and building permits *Graphs 25* to *29* of the *Reporting Detail* reflects those annualized numbers.

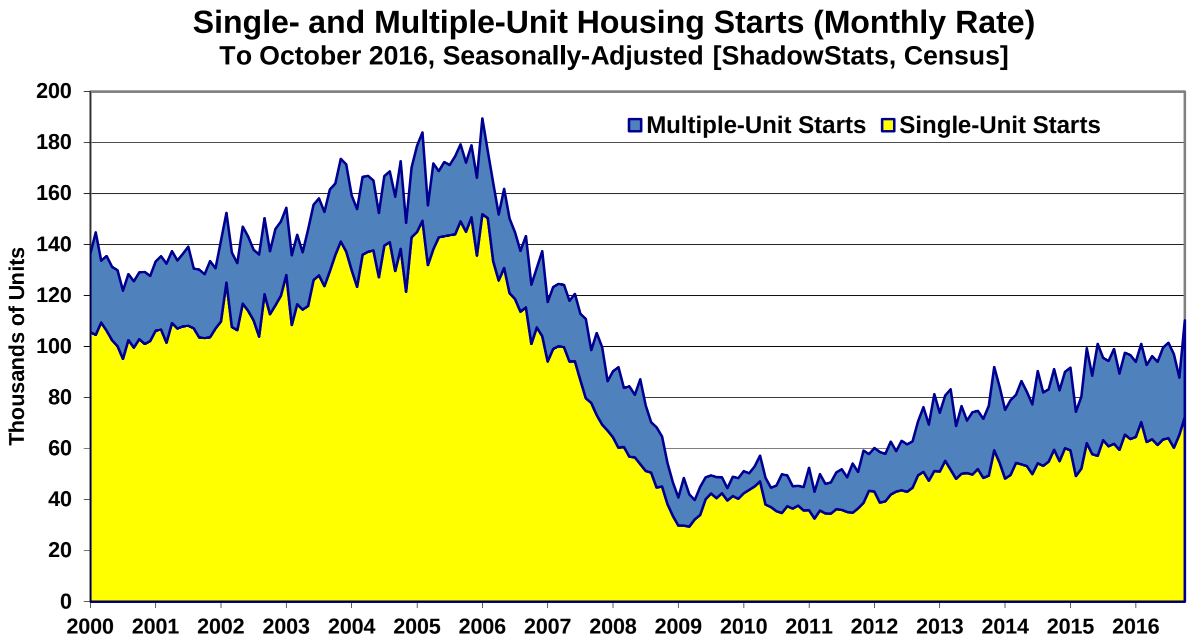
Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the headline 269,000 month-to-month gain just reported for the headline annualized October 2016 housing starts was larger than any actual level of (not change in) monthly starts, ever (in units per month, not annualized), for a single month. That is since related starts detail first was published after World War II.

Accordingly, the monthly rate of 110,250 units in October 2016, instead of the annualized 1,323,000-headline number, is used in the scaling of the *Graphs 4* to *11* in these *Opening Comments*. With the use of either scale of units, though, appearances of the graphs and the relative monthly, quarterly and annual percentage changes are otherwise identical, as can be seen in a comparison of *Graph 6* versus *Graph 25* in the *Reporting Detail*.

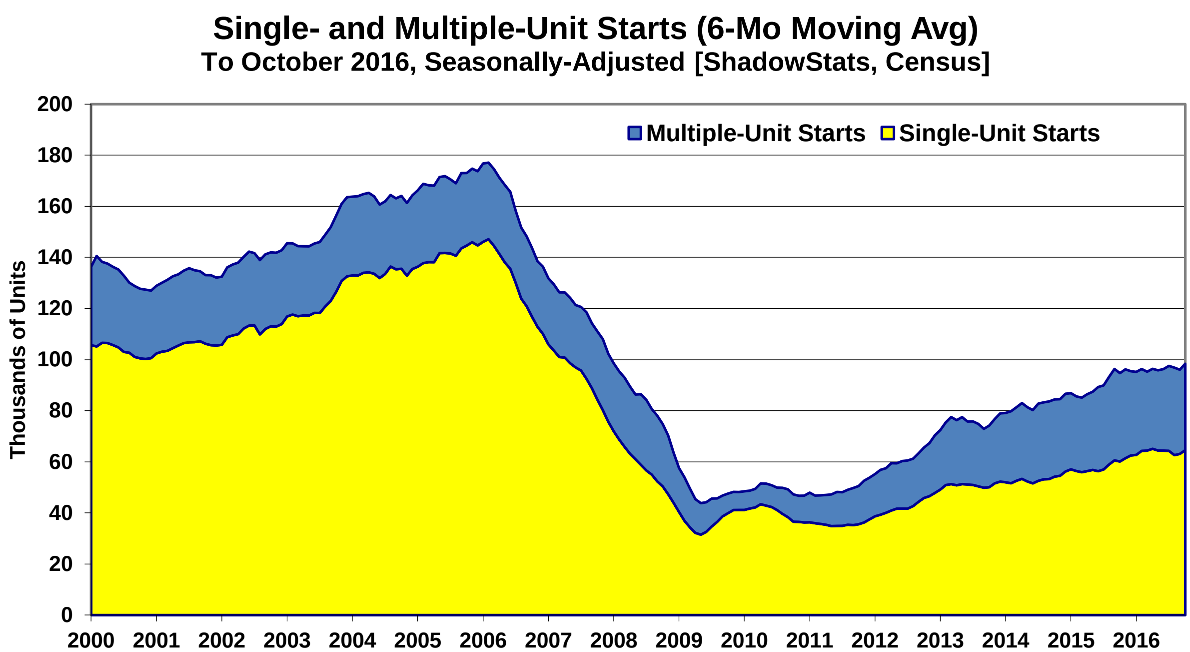
The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of housing starts then was down by 79% (-79%) from the January 2006 pre-recession peak. Against that downside-spiked low in April 2009, the October 2016 headline number was up by 177%, but it still was down by 42% (-42%) from the January 2006 pre-recession high for the series. Shown in the historical perspective of the post-World War II era, current aggregate-starts activity is in relative stagnation still at low levels that otherwise have been seen at or near the historical troughs of other recession activity of the last 70 years, as reflected in *Graph 29* of the *Reporting Detail*.

[Graphs 4 to 11 begin on the next page.]

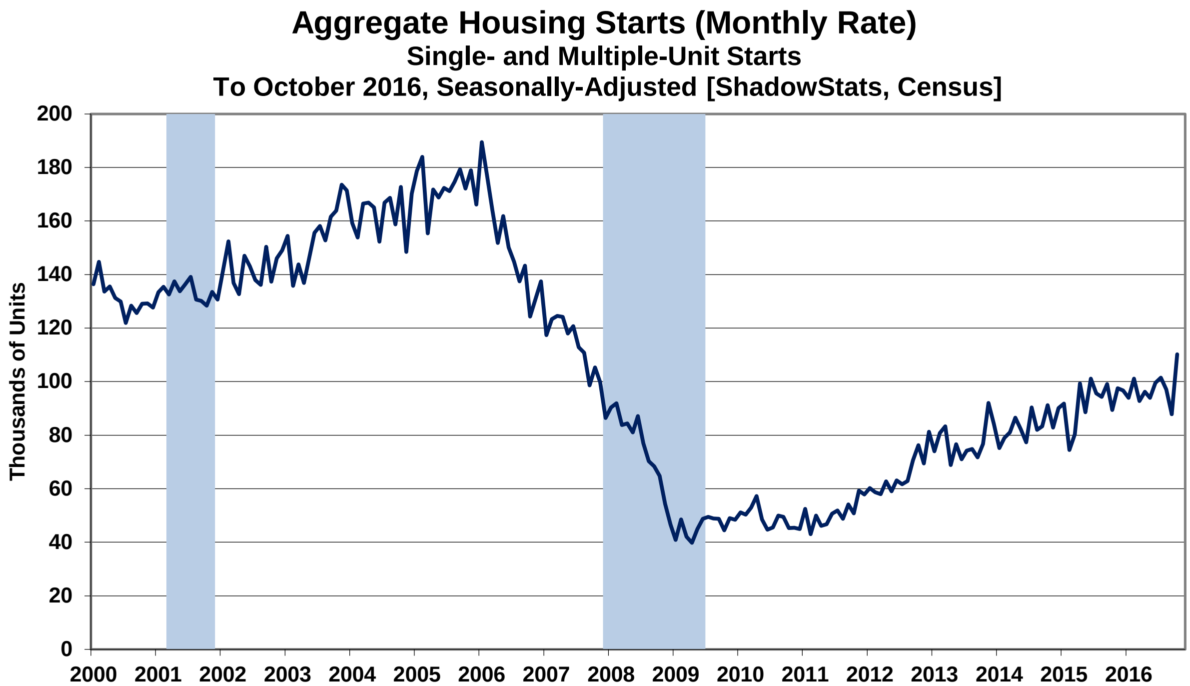
Graph 4: Single- and Multiple-Unit Housing Starts (Monthly Rate of Activity)



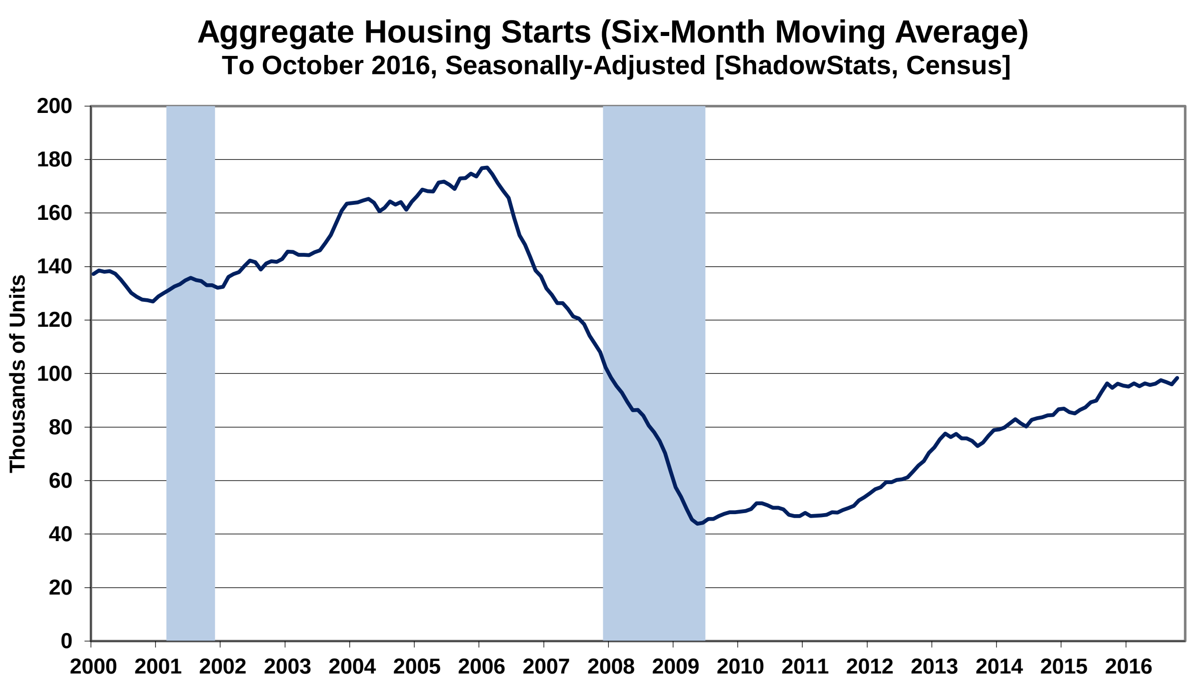
Graph 5: Single- and Multiple-Unit Starts (Six-Month Moving Average, Monthly Rate of Activity)



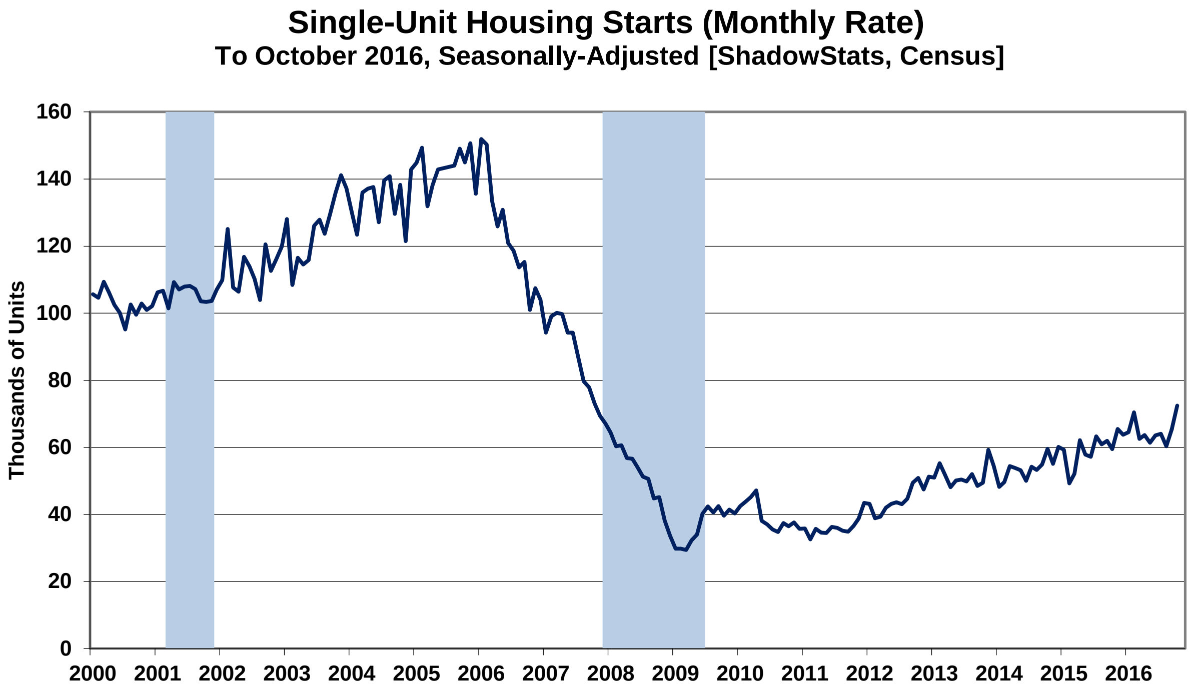
Graph 6: Aggregate Housing Starts (Monthly Rate of Activity)



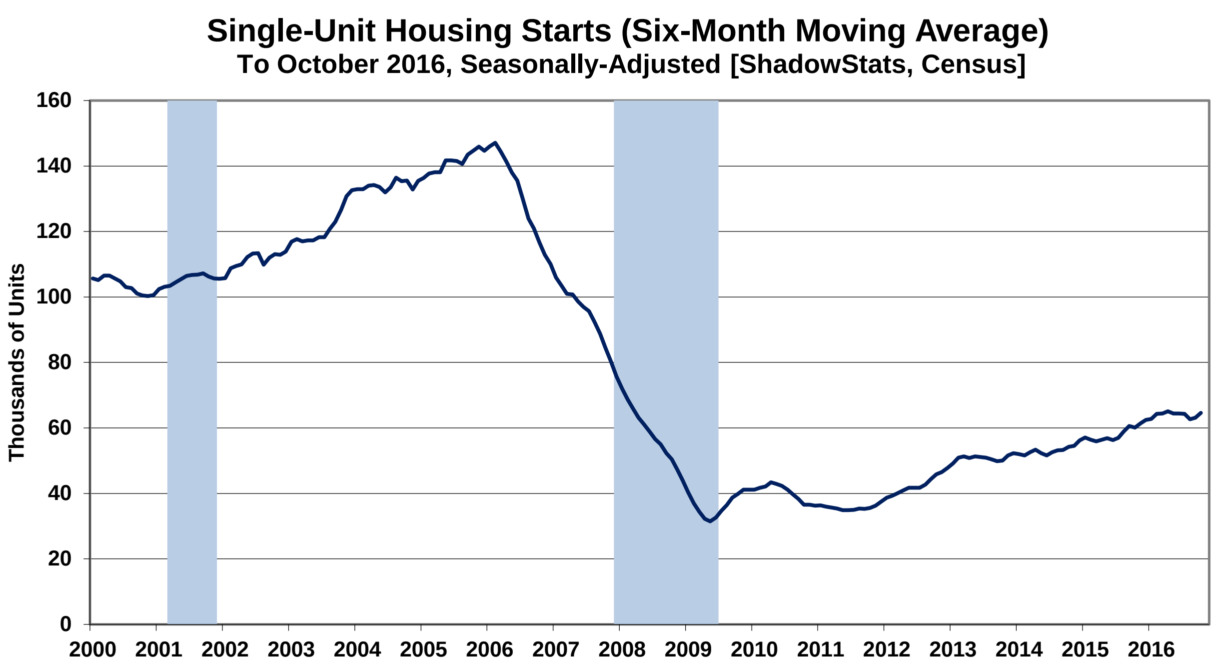
Graph 7: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



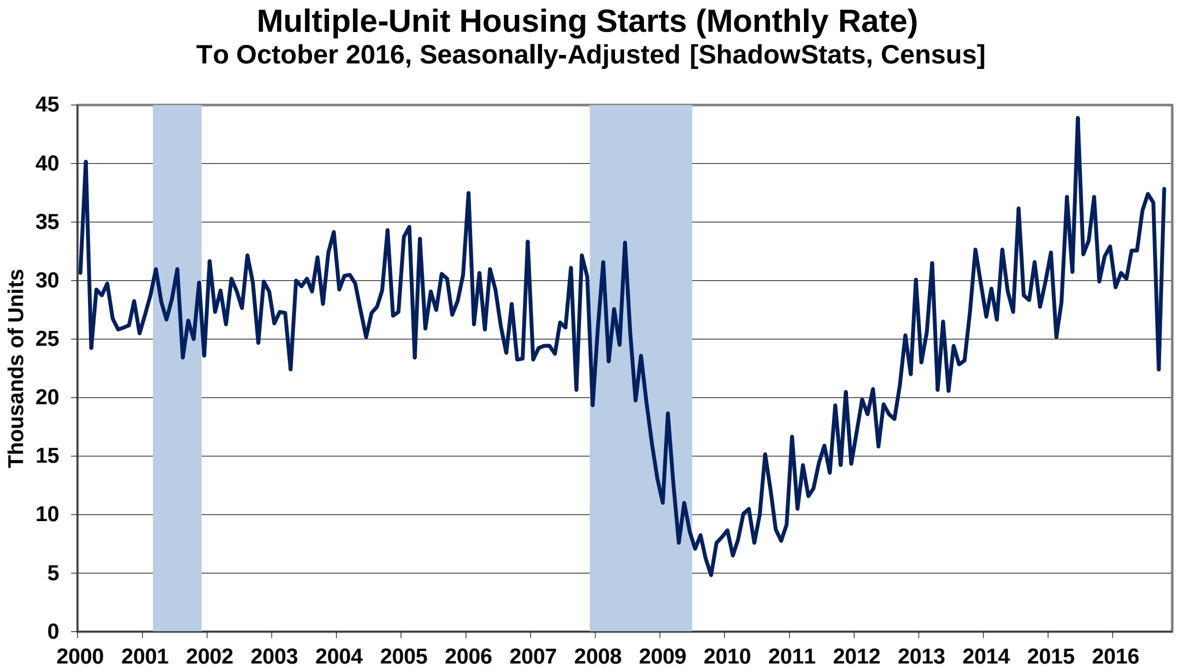
Graph 8: Single-Unit Housing Starts (Monthly Rate of Activity)



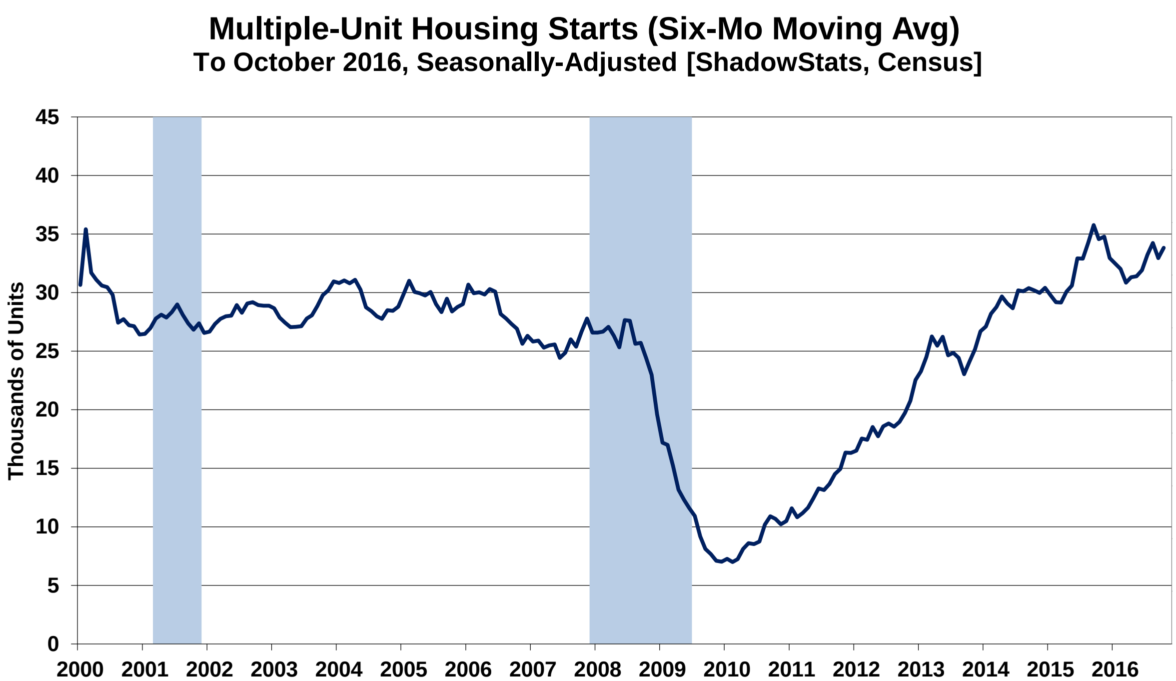
Graph 9: Single-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



Graph 10: Multiple-Unit Housing Starts (Monthly Rate of Activity)



Graph 11: Multiple-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)



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

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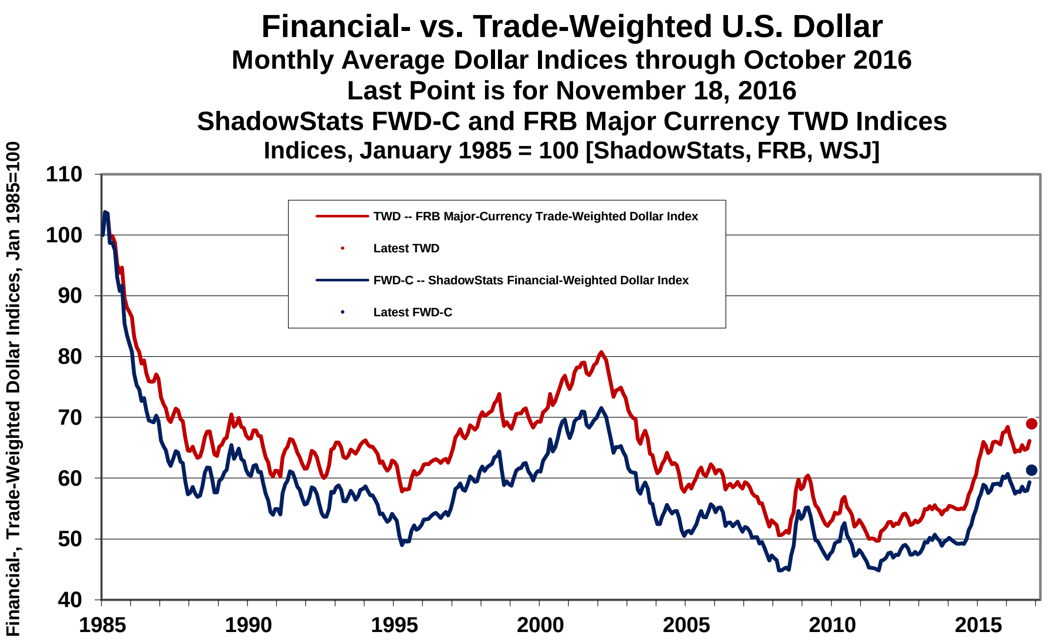
HYPERINFLATION WATCH

TURMOIL AHEAD FOR DOLLAR, GOLD AND MONETARY CONDITIONS

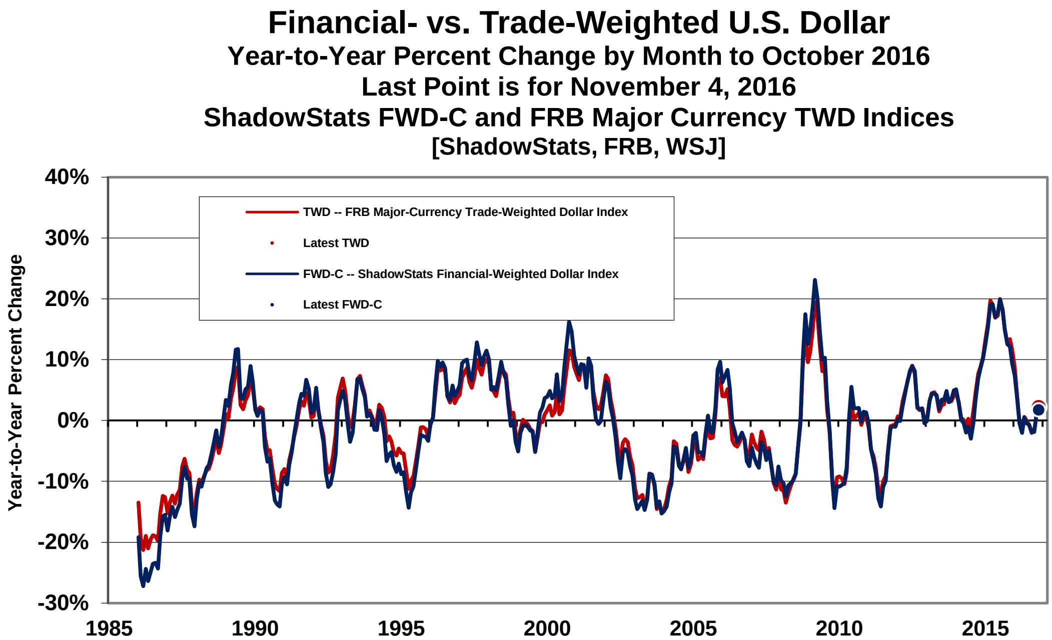
Fed's Inability to Escape Financial-System Liquidity Quagmire Dooms the Dollar. Noted in the opening paragraphs of the *Opening Comments,* the post-election surge in the U.S. dollar, and related sell-off in gold and silver actually began the day before the voting that led to Mr. Trump's upset election victory. Since November 4th, those movements have hit gold prices by 7% (-7%), or so, with the U.S. dollar gaining about 5% on average. In perspective, the accompanying monthly-average plots through October cover the U.S. Dollar (*Graphs 12* and *13*), along with gold (*Graphs 14*, *15* and *16*), where the November points on the graphs reflect late-day New York prices for Friday, November 18th.

Graph 12: Financial- versus Trade-Weighted U.S. Dollar



The current patterns of shifting currency and precious-metals values most likely represent U.S. Central Bank games aimed at rallying the dollar, killing gold and silver and raising interest rates on December 14th. While recent, phony post-election economic strength certainly is a factor in boosting current rate-hike expectations, keep in mind that the Federal Reserve's Federal Open Market Committee (FOMC) faces likely not-so-robust November labor conditions on December 2nd and the Fed's own, still-weakening industrial production measure on December 14th, the last and decisive day of the rate-hike targeted FOMC meeting. While the FOMC is not that concerned with the economic numbers, it is concerned with shifting financial-market sentiment, which is sensitive to shifting economic numbers.

Graph 13: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar



Whether or not the FOMC hikes rates on December 14th—there is a good chance they will—the next likely monetary move would be back towards expanded quantitative easing, probably by mid-2017. Such action would reflect continued, deteriorating economic conditions intensifying banking- and financial-system liquidity stresses. A near-term rate hike likely would only affect targeted federal funds rate, it would not preclude future quantitative easing as practiced by the Fed in providing liquidity to the global banking system in recent years.

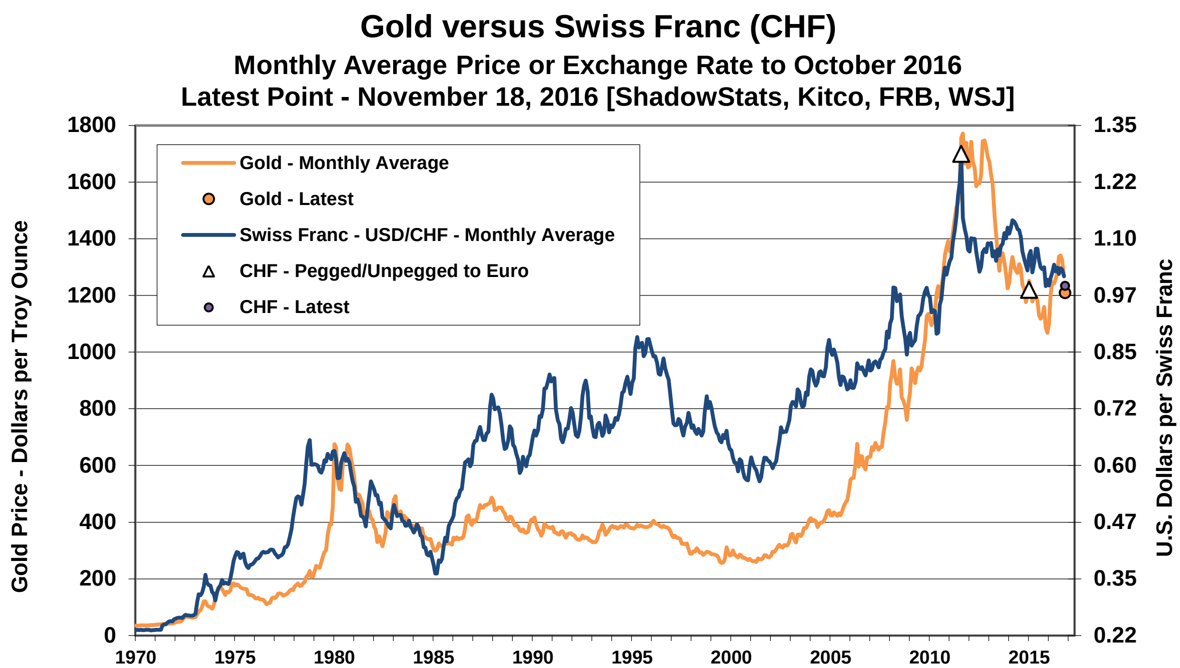
Renewed quantitative easing generally is not expected by the markets, and therein lies the potential for a massive sell-off in the U.S. dollar, for a massive flight to gold and silver (with related sharp price gains), and for massive upside pressure on the price of oil and domestic U.S. inflation in 2017.

Financial Stabilizer of Last Resort, the Federal Reserve Also Is the Greatest Threat to Stability. The greatest systemic danger the Trump Administration faces up front is working with or around the Federal Reserve's self-created quagmire of continuing domestic and global banking-system illiquidity issues and non-recovering global economies.

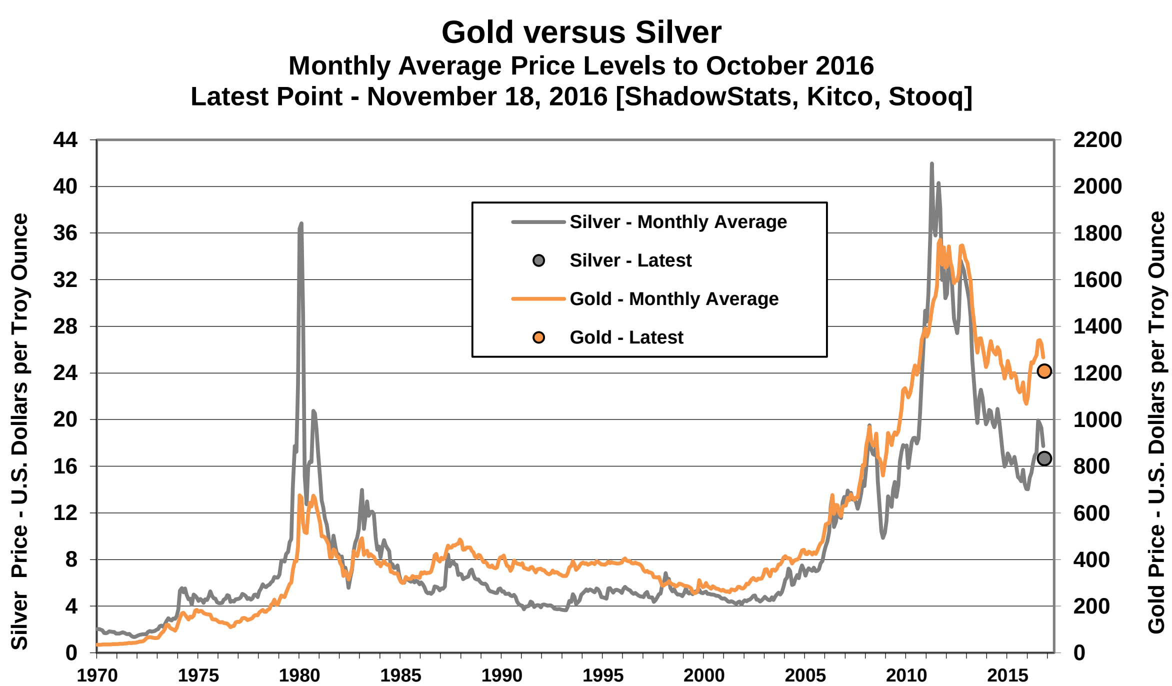
The tremendous near-term threat to the U.S. dollar and systemic liquidity and stability continues, tied to the U.S. Federal Reserve's inability to resolve fundamentally the 2008 financial collapse, other than having bought limited additional time with its emergency stopgap measures to resolve that crisis. Since then, domestic- and global-banking systems have not been stabilized in a healthy or sustainable manner. Efforts to stimulate a non-recovering U.S. economy, amidst renewed faltering activity, have been nil, up through the advent of the Trump era. Given standard lead times, positive impact from post-inauguration 2017 stimulus packages likely will not have significant effect until early-2018, at the earliest.

That time lapse is fraught with potential disaster, with systemic risks dominated by an incapacitated Fed, fighting to the death a battle it already lost in the 2008 panic.

Graph 14: Gold versus the Swiss Franc



Graph 15: Gold versus Silver



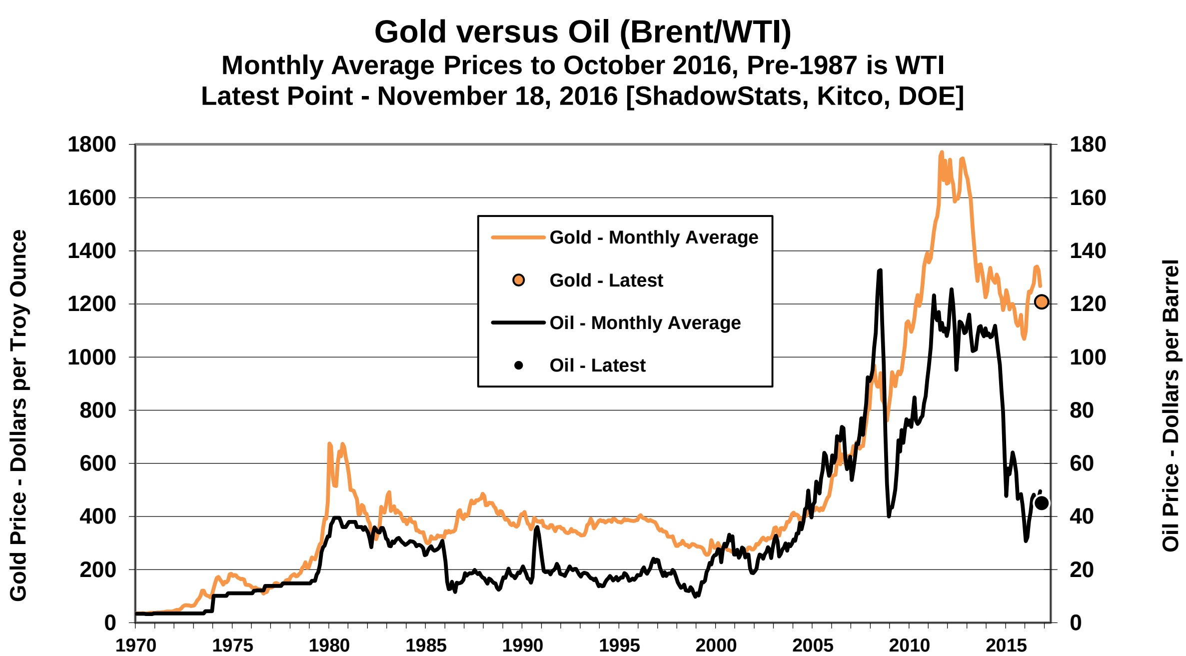
A Crisis Decades in the Making. The Greenspan Fed recognized that U.S. consumers faced flat or declining, inflation-adjusted real income during much of the 1990s and in the early-2000s, with implications for stagnant or declining GDP activity. Income issues often reflected the loss of U.S. productive assets and high-paying production jobs to offshore locations. In response, the U.S. central bank encouraged and enabled expanded debt growth, as way of fueling economic growth, including the use of creative new derivative debt instruments and otherwise overly lax and liberal oversight of the banking and financial systems, leading into the financial crisis and panic in 2008.

Faced with a financial-system panic and pending banking-system collapse in 2008, the Bernanke (and later Yellen) Fed and the Bush (and later Obama) Administration moved and have continued to move to save the domestic banking system at any and all costs. Stopgap measures were used successfully to buy some time, irrespective of the cost or long-term efficacy of such, yet little was done to address the accompanying U.S. economic collapse, long-term U.S. sovereign solvency issues [the primary long-term problem] or other concerns that fueled the systemic panic.

The Federal Reserve used its post-panic quantitative easings to provide liquidity and stability to the domestic and global banking systems, under the political canard of "stimulating the economy." Yet the Fed knew that there was no inherent economic stimulus being provided, other than not having the financial system collapse.

Shy of a decade following the Panic of 2008, the purchased time for "pushing the crisis into the future" effectively has run out. The domestic and global banking systems remain afloat, but are not in much better shape than they were in 2008. The U.S. economy collapsed into 2009 but never fully recovered, in reality, suffering protracted low-level stagnation and that is turning down anew. That economic circumstance was a significant contributing factor to Mr. Trump gaining the U.S. Presidency.

Graph 16: Gold versus Oil



Again, irrespective of a December rate hike and mounting financial-market speculation for same, the still-ongoing and deepening domestic economic downturn promises continuing, intensified stress on systemic liquidity. That circumstance ultimately—sooner rather than later—dooms the U.S. central bank to an intensified quantitative easing.

Despite frequent FOMC bluffing in terms of rate increases, the economy still is tanking, and the headline November labor and industrial production reporting will precede or coincide with the FOMC's next round of games-playing. The key remains that a weak economy threatens banking- and financial-system liquidity. It is the liquidity, not the economic concerns, that will force the Fed to fall back to its basic missions, that of propping the U.S. banking system and of funding the liquidity of the U.S. Treasury. The Fed should move to expand quantitative easing in the new year, not to tighten monetary policy meaningfully.

At a basic level, the high-risk potential of a near-term run on the U.S. dollar is compounded by mounting recognition in global markets that the U.S. Federal Reserve and other central banks have no effective idea as to how to boost current economic activity, to stabilize the global banking-system solvency or otherwise how to slog their way out of the quagmire.

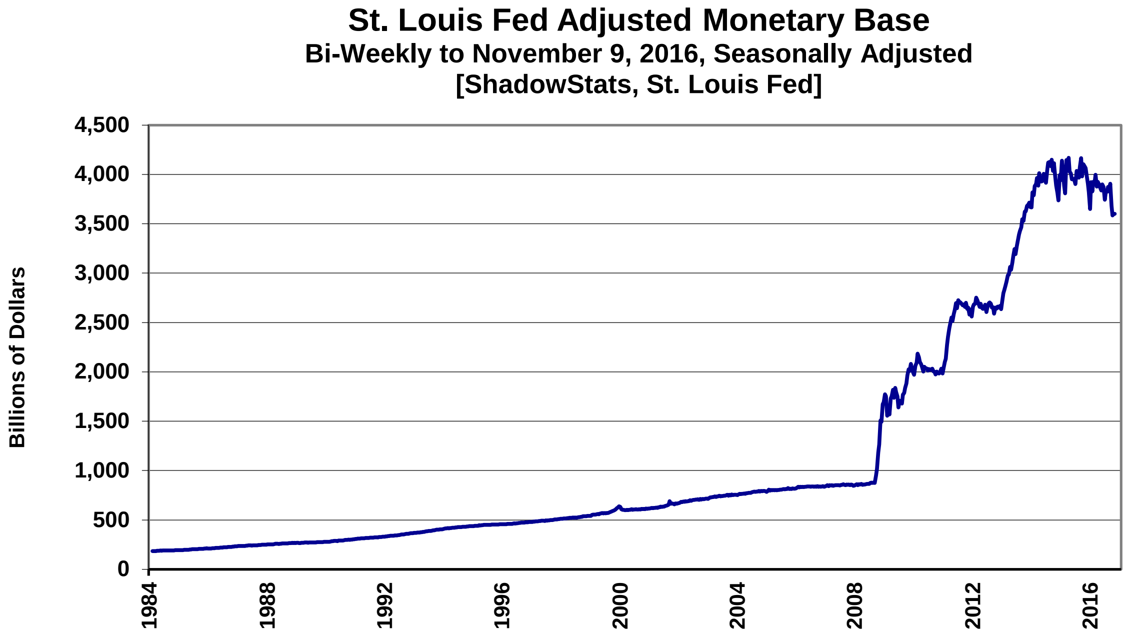
No Recovery in or Significant Change to the Monetary Base. Following up on *Commentary No. 844*, and in the context of continued rate-hike machinations and possible market instabilities for federal funds, the latest two-week reporting period of for the monetary base, ended November 9th, showed no recovery in the Saint Louis Fed's Monetary Base level or annual growth that had been pummeled in the two-week period ended October 12th. Then, the monetary base suddenly dropped by $300 billion from the period before the September 21st FOMC meeting, to a three-year low, with year-to-year change plummeting by 12.7% (-12.7%), the steepest annual decline in history.

Graphs 17 and *18* show reporting of the monetary base through the two-week period ended November 9th, with a level of $3.602 trillion, versus $3.600 trillion October 26th, $3.584 trillion October 12th, $3.682 trillion September 28th and $3.905 trillion for September 14th. The annual rate of decline narrowed minimally to 11.3% (-11.3%) for November 9th, from 11.9% (-11.9%) for October 26th and 12.7% (-12.7%) for October 12th.

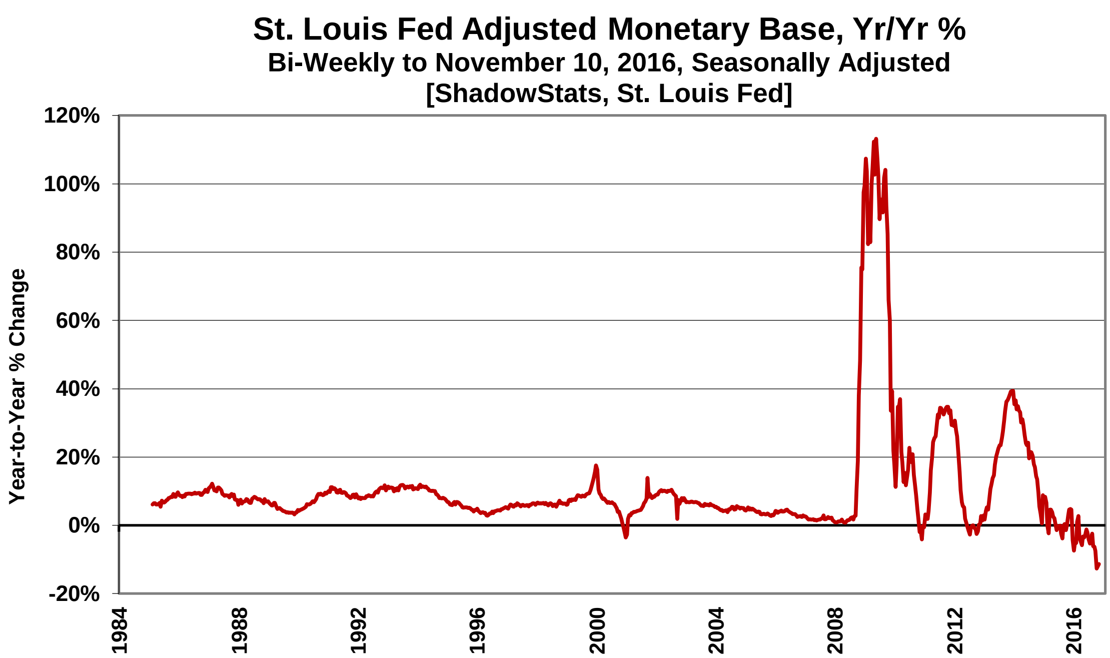
These circumstances will be reviewed and updated in the month-end *Special Commentary*. See the *Week and Month-Ahead* section.

[Graphs 17 and 18 follow on the next page.]

Graph 17: Monetary Base Level, Bi-Weekly through November 10, 2016



Graph 18: Monetary Base, Year-to-Year Percent Change, through November 10, 2016



REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (October 2016)

Headline CPI-U Inflation Took Another Strong Jump, Along With Gasoline Prices. *[These first three paragraphs largely are repeated from the* Opening Comments and Executive Summary.*]* The headline October 2016 CPI-U monthly inflation of 0.4% [up by 0.36% at the second decimal point] generally was as expected by the consensus. With negligible seasonally-adjusted deflation in food, the headline gain again 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 rose to 1.6% in October, versus 1.5% in September 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 October 2016 of 5.2%, based on 1990 methodologies, and 9.3%, based on 1980 methodologies.

Longer-Range Inflation Outlook. Despite the strong U.S. dollar rally subsequent to the election, a tremendous threat to the dollar and systemic liquidity and stability continues, tied to the U.S. Federal Reserve's inability to resolve fundamentally the 2008 financial collapse, other than having bought limited additional time with its emergency stopgap measures. Since then, domestic- and global-banking systems have not been stabilized in a healthy or sustainable manner. Efforts to stimulate a non-recovering U.S. economy, amidst renewed faltering activity, have been nil, up through the advent of the Trump era. Given standard lead times, positive impact from post-inauguration 2017 stimulus packages likely will not have significant effect until early-2018, at the earliest, a time lapse fraught with potential disaster created by an incapacitated Fed, fighting to the death a battle it already lost in the 2008 panic, as discussed in today's *Hyperinflation Watch*.

Irrespective of whether or not the FOMC raises interest rates at its December 2016 meeting, an expanded program of quantitative easing likely will follow shortly thereafter, in response to mounting, systemic-liquidity issues created by increasingly-negative domestic economic pressures. Such would generate high risk of extreme flight from the U.S. dollar—a massive dollar debasement—threatening an increasingly-rapid upturn in energy and dollar-based commodity inflation, driving headline U.S. inflation much higher.

Compounding the high-risk of a near-term run on the U.S. dollar remains mounting recognition in global markets that the U.S. Federal Reserve and other central banks have no effective idea as to how to boost current economic activity, how to stabilize the global banking-system solvency, or otherwise how to slog their way out of a self-generated quagmire.

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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 November 17th that the headline, seasonally-adjusted October 2016 CPI-U rose by 0.4% month-to-month, up by 0.36% at the second decimal point. That followed a headline gain of 0.3% month-to-month, up by 0.29% at the second decimal point in September, versus a gain of 0.2% month-to-month, up by 0.20% at the second decimal point in August, and against an "unchanged" at 0.0%, down by 0.04% (-0.04%) at the second decimal point in July.

The adjusted headline October 2016 inflation increase was boosted by positive seasonal adjustments to the energy sector, but otherwise was softened again by negative seasonal adjustments to "core" (ex-food and energy) and food sectors. On an unadjusted basis, monthly October 2016 CPI-U rose by 0.12%, having gained 0.24% in September and 0.09% in August, and having declined by 0.16% (-0.16%) in July.

October 2016 seasonal adjustments for monthly gasoline inflation were positive, "boosting" an unadjusted headline gain of 1.83% in gas prices into an adjusted gain of 6.97%. The Department of Energy (DOE) had estimated an unadjusted monthly gain of 1.38%.

Major CPI-U Groups. Encompassed by the seasonally-adjusted monthly CPI-U gain of 0.36% in October 2016 [up by an unadjusted 0.12%], October food inflation declined by 0.03% (-0.03%) [up by 0.06% unadjusted], October energy inflation rose by a seasonally-adjusted 3.48% [down by an unadjusted 0.54% (-0.54%)], while the adjusted October "core" (ex-food and energy) inflation rate rose by 0.15% [up by 0.20% unadjusted]. Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 2.14% in October 2016, versus 2.21% in September 2016, 2.32% in August 2016 and 2.19% in July 2016.

Year-to-Year CPI-U. Not seasonally adjusted, October 2016 year-to-year inflation for the CPI-U rose to 1.6% (1.64% at the second decimal point), versus 1.5% (1.46% at the second decimal point) in September 2016, 1.1% (1.06% at the second decimal point) in August 2016 and 0.8% (0.83% at the second decimal point) in July 2016.

Year-to-year, CPI-U inflation would increase or decrease in next month's November 2016 reporting, dependent on the seasonally-adjusted month-to-month change, versus the negligible adjusted, headline gain of 0.01% in November 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 November 2016, the difference in November's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the October 2016 annual inflation rate of 1.64%. Given an early guess of a seasonally-adjusted, gain of 0.2% in the monthly November 2016 CPI-U, that would move the annual CPI-U inflation rate for November 2016 up to about 1.8% or 1.9%, plus-or-minus, depending on rounding.

CPI-W. The October 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 0.40%, following gains of 0.34% in September and 0.18% in August, and a decline of 0.09% (-0.09%) in July. On an unadjusted basis, the monthly CPI-W rose by 0.10% in October 2016, having gained 0.25% in September and 0.06% in August, and having declined by 0.22% (-0.22%) in July.

Year-to-Year CPI-W. Unadjusted, year-to-year change in October 2016 CPI-W was a gain of 1.45%, up from 1.22% in September 2016, 0.66% in August 2016 and 0.41% in July 2016.

Chained-CPI-U. The headline C-CPI-U is not seasonally adjusted, but it is subject to revisions back for twelve months, every quarter, as published with the October 2016 detail. Year-to-year unadjusted inflation was revised higher by roughly 0.05% per month, from October 2015 to September 2016. Headline October 2016 C-CPI-U annual inflation came in at 1.48%, versus upwardly revised gains of 1.27% [previously 1.23%] in September 2016, 0.80% [previously 0.75%] in August 2016 and 0.57% [previously 0.52%] in July 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 have been 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*.

Caution: Artificially-low inflation numbers estimated by the U.S. Government and used in fields ranging from Social Security COLAs (see the 2017 CPI-W estimate discussion in *Commentary No. 841*) 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 5.2% in October 2016, versus 5.0% in September 2016, versus 4.6% in August 2016.

The October 2016 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 9.3% (9.34% at the second decimal point) year-to-year, versus 9.1% in September 2016 and 8.7% in August 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 October 2016 CPI-U/ShadowStats Inflation—

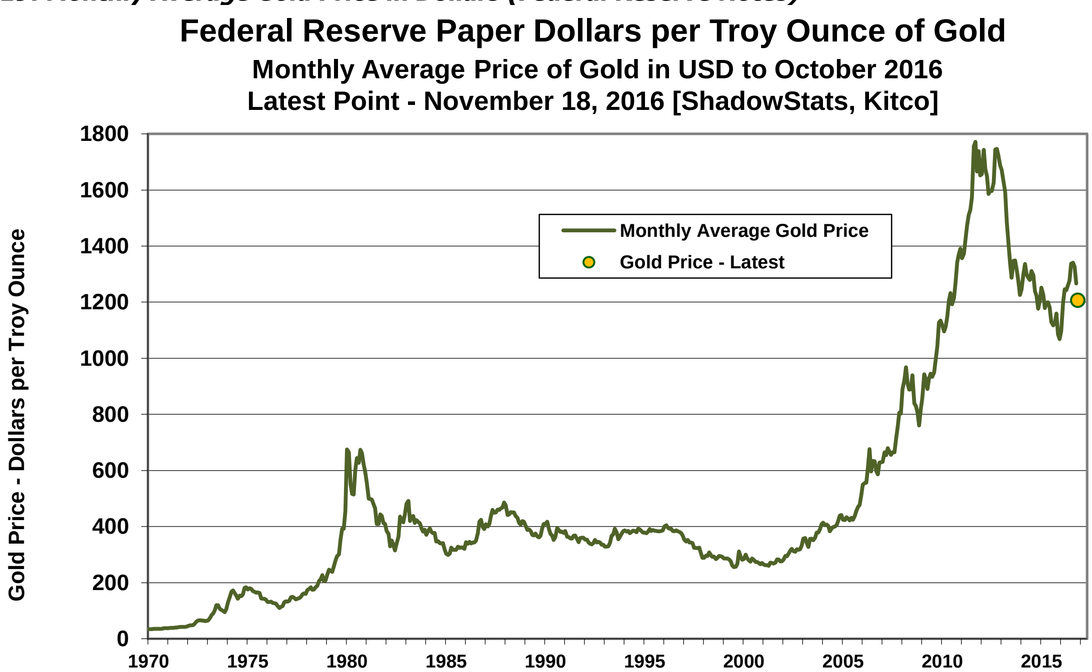
CPI-U: GOLD at $2,641 per Troy Ounce, SILVER at $154 per Troy Ounce
ShadowStats: GOLD at $13,356 per Troy Ounce, SILVER at $777 per Troy Ounce

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 $2,641 per troy ounce, based on October 2016 CPI-U-adjusted dollars, and $13,356 per troy ounce, based on October 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 October 2016 CPI-U inflation, the 1980 silver-price peak would be $154 per troy ounce and would be $777 per troy ounce in terms of October 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 19: Monthly Average Gold Price in Dollars (Federal Reserve Notes)



Real (Inflation-Adjusted) Retail Sales—October 2016—Up by 0.47% Month-to-Month, by 2.61% Year-to-Year. Discussed in *Commentary No. 847*, nominal monthly retail sales in October 2016 rose by a heavily-bloated and not credible 0.82%, against an upwardly revised 0.96% in September 2016 and a revised, narrower decline of 0.03% (-0.03%) in August. The October 2016 year-to-year nominal retail-sales gain rose to 4.30%, versus upwardly revised annual gains of 3.23% in September 2016 and 2.23% in August 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 October 2016 Retail Sales, and the trends for annualized quarterly real changes in retail sales follow, based on the accompanying detail of the November 18th release of the October 2016 CPI-U.

Based on headline seasonally-adjusted monthly CPI-U gain of 0.36% in October 2016 and gains of 0.29% in September and 0.20% in August, October 2016 real Retail Sales rose by 0.47%, following a revised gain of 0.66% in September and a revised drop of 0.23% (-0.23%) in August 2016.

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, October 2016 real retail sales increased to 2.61%, but the headline nominal October detail was so far removed from reality as to not be credible. September 2016 real retail sales growth revised higher to 1.73%, while August 2016 revised higher to 1.12%. With annual real growth slowing to 1.46% in revised third-quarter 2016 reporting, versus 1.56% in second-quarter 2016 and 1.62% in first-quarter 2016, the recession signal remained intense, consistent with an unfolding economic downturn. Although well within the scope of historical volatility around the "signal" limit, again, the 2.26% implied annual growth for fourth-quarter 2016 was not credible, subject to revision of the next two months of reporting. *Graphs 21* and *23*, following, show the latest patterns of headline annual real retail sales growth.

Initial Third-Quarter 2016 Annualized Real Growth Trend Still Slowed Sharply versus Second-Quarter 2016, with First-Quarter 2016 Still Flat. Based on upwardly revised full reporting for third-quarter 2016, annualized real quarterly Retail Sales growth there still slowed sharply to 2.12% from an unrevised 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. Based only on October's overestimated headline detail, the initial trend for fourth-quarter 2016 annualized real growth was 3.37%.

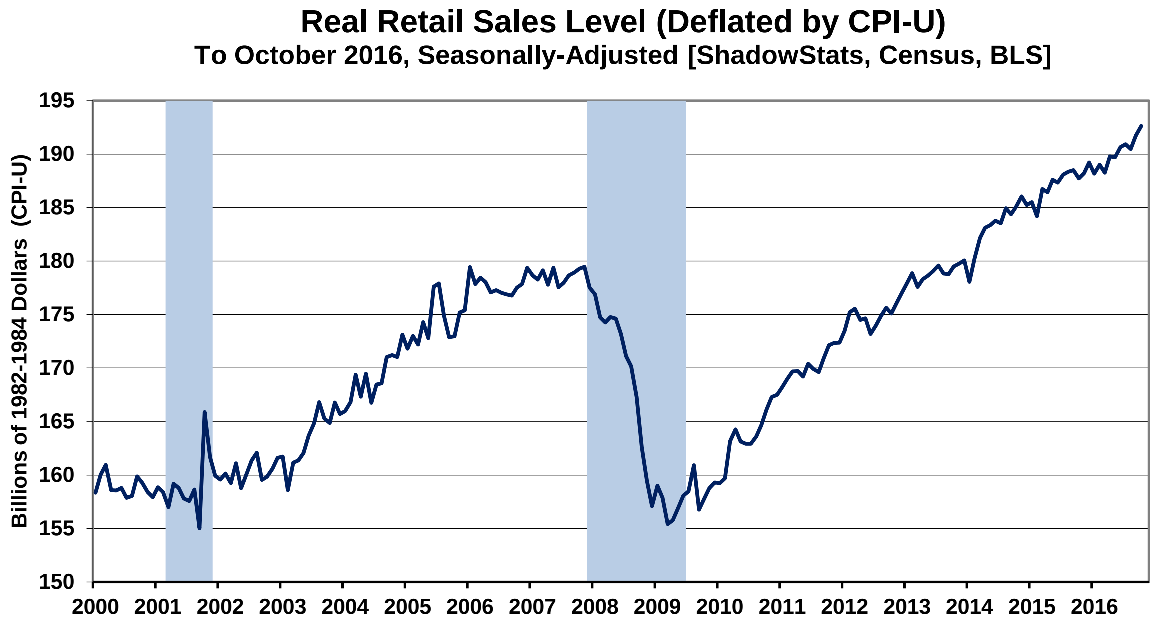
Structural Liquidity Issues Continue to Impair Retail Sales. An extreme consumer-liquidity bind continues to constrain retail sales activity, as fully updated in *Commentary No. 846*. Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt 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 generally continue to suffer from the ongoing consumer liquidity squeeze, these data should trend meaningfully lower, in what should gain recognition as a formal "new" recession.

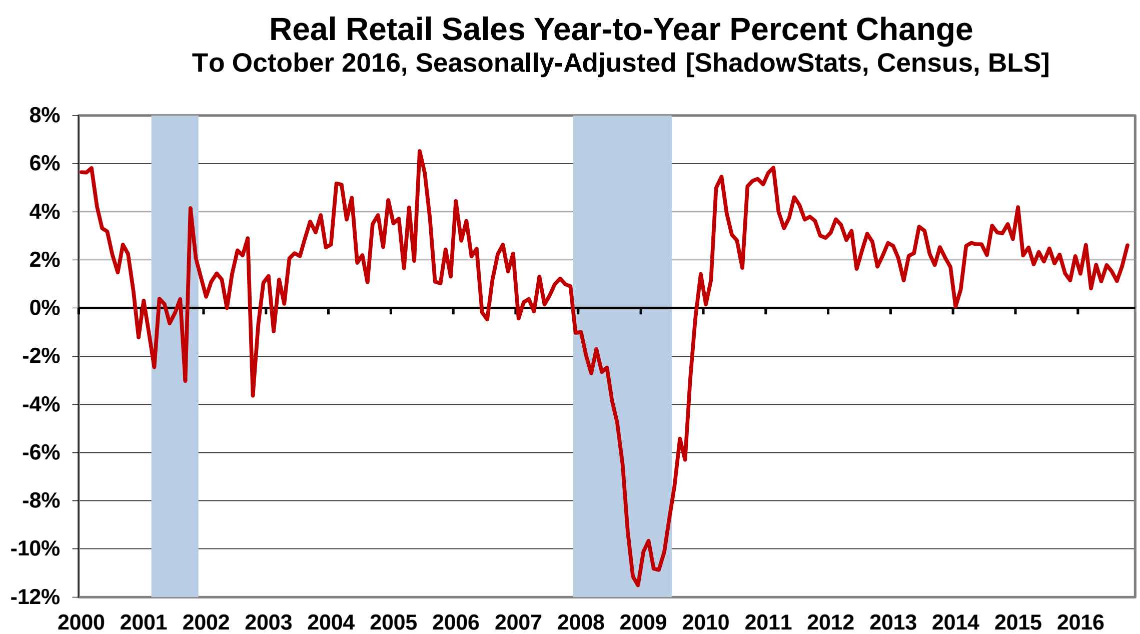
Real Retail Sales Graphs. *Graph 20*, the first of the four graphs following, shows the level of real retail sales activity (deflated by the CPI-U) since 2000; *Graph 21* shows the year-to-year percent change for the same period. Annual real growth had slowed markedly into fourth-quarter 2015 and 2016, generating an intense recession signal. *Graphs 22* and *23* show the level of, and annual growth in, real retail sales (and its predecessor series) in full post-World War II detail.

[Graphs 20 to 23 begin on the next page.]

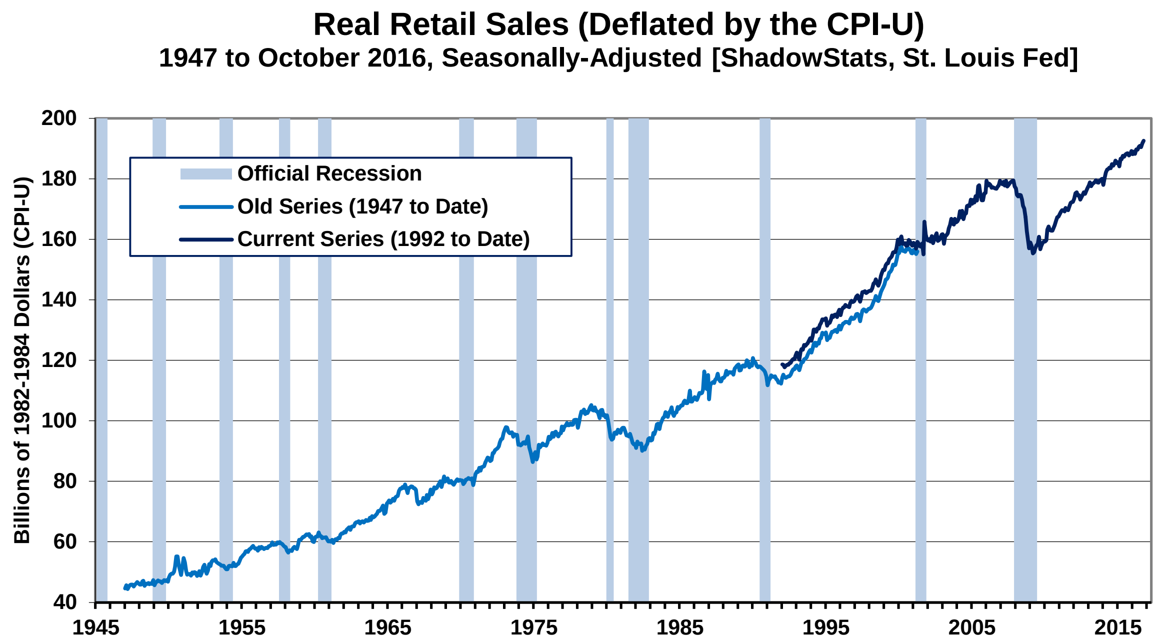
Graph 20: Level of Real Retail Sales (2000 to 2016)



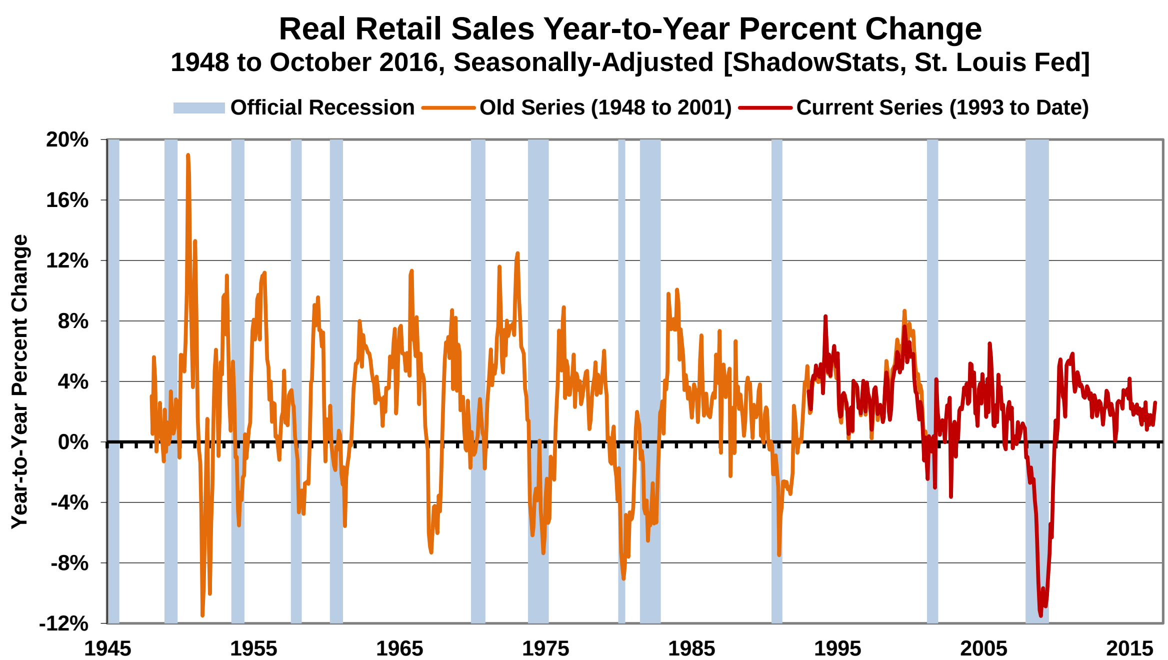
Graph 21: Real Retail Sales (2000 to 2016), Year-to-Year Percent Change



Graph 22: Level of Real Retail Sales (1947 to 2016)



Graph 23: 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 2* 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 Average Weekly Earnings—October 2016—Real Earnings Fell for the Third Straight Month in the Context of Ongoing Unstable Reporting. The headline estimate for October 2016 real average weekly earnings was published coincident with the November 18th release of the October CPI-W. In the production and nonsupervisory employees category—the only series for which there is a meaningful history, real average weekly earnings in October 2016 fell by 0.22% (-0.22%) month-to-month, following revised monthly declines of 0.06% (-0.06%) [previously down by 0.11% (-0.11%)] in September and 0.33% (-0.33%) [previously down by 0.58% (-0.58%), initially down by 0.28% (-0.28%)] in August, and an unrevised monthly gain of 0.72% [initially up by 0.76%] in July. The October monthly decline was the third consecutive monthly decline, the sixth month-to-month hit to this series in the last seven months.

Those readings maintained an unrevised second-quarter 2016 annualized quarter-to-quarter contraction of 0.96% (-0.96%), with an upwardly revised third-quarter 2016 annualized real growth pace of 1.68% [previously up by 0.94%], and an early-trend estimate (based solely on October detail) of a fourth-quarter 2016 annualized real contraction of 1.48% (-1.48%).

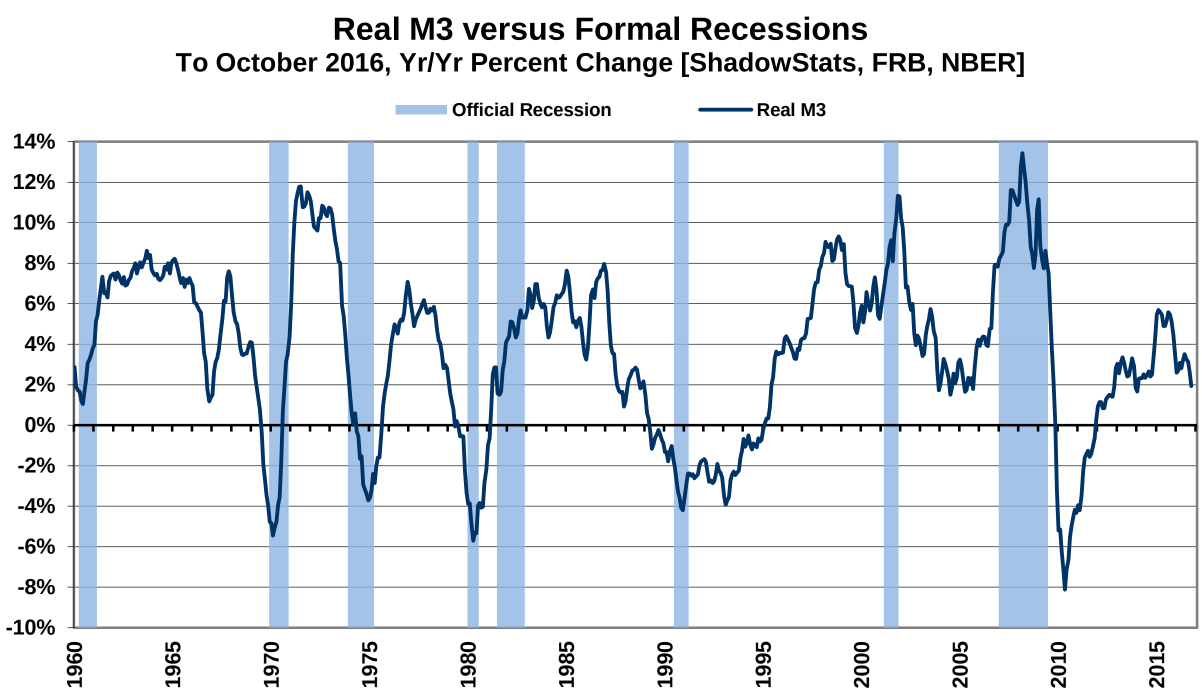
While these usually heavily revised and seasonally-adjusted monthly changes are without much, if any, meaning in the near-term—effectively reporting garbage—over the longer term and quarterly, and particularly the benchmarked trends tend to be of some substance. As with the BLS reporting tied to the 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. 845*. 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 October 2016 detail, where higher gasoline prices generated a headline monthly CPI-W gain of 0.40%, versus a CPI-U gain of 0.36%.

Found in the *Opening Comments* section, *Graph 3* 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.

Real (Inflation-Adjusted) Money Supply M3—October 2016—Annual Growth Slowed to a 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 24*—based on October 2016 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate (including regular Federal Reserve Board money supply revisions)—annual inflation-adjusted growth in October 2016 M3 plunged to 1.9%, versus a downwardly revised 2.6% [previously 2.8%] in September 2016, 3.1% [previously 3.2%] in August 2016, 3.3% [previously 3.4%] in July 2016, 3.5% [previously 3.6%] in June 2016, 3.2% [previously 3.3%] in May 2016 and the unrevised, prior near-term trough of 2.8% in April 2016. The 0.7% (-0.7%) decline in the monthly year-to-year change reflected a plunge in annual M3 growth of 0.5% in combination with a 0.2% (reflects second decimal point calculation) monthly jump in the level of annual, not-seasonally-adjusted CPI-U inflation (see *Commentary No. 845*).

Graph 24: 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 initial economic 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, where it is heading at present. 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 2 and 3* 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 should gain official recognition as a "new" recession, in the near future. 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 "new" downturn remains nothing more than a continuation and re-intensification of the downturn that began unofficially in 2006 (see *Commentary No. 844*).

RESIDENTIAL CONSTRUCTION (October 2016)

Extreme Housing-Starts Volatility Not Seen Since the Depths of 1980 Recession. October 2016 housing starts soared by 25.5% in the month, having declined by a revised 9.5% (-9.5%) in September. That was the largest headline monthly upsurge in housing starts since a 29.0% gain in June 1980, at the depths of the 1980 recession. Such volatility is unusual, even for this notoriously-unstable and heavily-revised series.

Nonetheless, smoothed and viewed in terms of its six-month moving average, housing starts activity still showed a plunge from its 2006 pre-recession peak to a trough in 2009, followed by a protracted period of up-trending but non-recovering activity, which flattened out in the last year or two (see *Graphs 28* and *7*, respectively in this *Reporting Detail* and the *Opening Comments*). Plotted with just the raw, seasonally-adjusted monthly data, the pattern broadly is the same, with the spiked October 2016 level of starts still shy by 42% of recovering its pre-recession peak (see *Graphs 26* and *6*, respectively in this *Reporting Detail* and the *Opening Comments*).

October Surge Was Seen Across the Board, With Multiple-Unit Starts More than Recovering the Prior Month's Extreme Decline. In the context of minimal upside revisions to September activity, monthly gains in both single-unit and multiple-unit activity were unusually strong, with aggregate October housing starts up by 25.5% month-to-month and by 23.3% year-to-year, against revised September activity of a revised monthly decline of 9.5% (-9.5%) and a revised annual decline of 11.4% (-11.4%).

The unbelievably strong housing-starts details in October, however, were not foreshadowed or otherwise indicated by the leading and underlying building permits series. The same can be said for September's headline weakness. In the context of negligible, prior-month revisions, October building permits, which theoretically lead housing starts activity by three-to-six months, gained both month-to-month and year-to-year, up by 0.3% in October 2016 for the month, up by 4.6% year-to-year. That was against an unrevised monthly gain in September of 6.3%, and an unrevised annual gain of 8.5%. The plotting of the permits series remains experimental here; it appears to have minimal, near-term predictive value versus the starts, aside from ongoing issues with internal data inconsistencies unique to the permits series.

Smoothed with six-month moving averages, both the housing-starts and building-permits series remained in extremely-flat, low-level stagnation (see *Graph 7* in the *Opening Comments* section, and *Graphs 27* and *28*). Neither headline permits nor starts has recovered from the collapse into 2009, with current activity down from pre-recession peaks by 46% (-46%) for permits, and by 42% (-42%) for starts.

Third-Quarter 2016 Housing Starts Remained Negative, Quarter-to-Quarter and Year-to-Year. The unstable total housing-starts count fell at annualized quarterly pace of 24.1% (-24.1%) in first-quarter 2015, rose at an annualized 96.3% pace in second-quarter 2015, flattened out to 0.0% in third-quarter 2015, and then contracted at an annualized 7.2% (-7.2%) in fourth-quarter 2015.

First-quarter 2016 activity, which had turned down in pre-benchmark (April) reporting, had revised into positive territory, thanks largely to upside benchmark revisions to multiple-structure starts in the May 2016 detail. It holds at 6.0%. Second-quarter 2016 also held, at an annualized quarterly gain of 2.8%. Third-quarter activity revised with the latest detail, but held negative on both an annual and annualized-quarterly basis, down by 0.9% (-0.9%) [previously down by 1.6% (-1.6%)] year-to-year, the first annual decline since first-quarter 2014, and down at an annualized pace of 4.7% (-4.7%) [previously down by 7.1% (-7.1%)] quarter-to-quarter.

Based just on the October details, fourth-quarter 2016 housing starts were on an early track for an unsustainable, annualized 78.0% gain and year-to-year surge of 16.6%.

Smoothed Numbers. Despite the extreme volatility and instabilities in the Housing Starts series, the general pattern of low-level stagnation continued. Again, the six-month moving-average pattern for the aggregate series remained about as flat as one ever sees, in low-level stagnation, reflecting the most-recent headline detail (*Graphs 7* and *28*), with the same pattern of stability also seen broadly in raw monthly data (*Graphs 6* and *26*). That general pattern also can be viewed in terms of the longer-range historical graph of aggregate activity (*Graph 29*) at the end of this section. Parallel graphs of monthly and six-month moving average building permits detail are compared in *Graphs 25* and *27*. Given the broad pattern of stagnation in both the aggregate starts and permits series, headline total October 2016 activity remained well below any recovery level, with starts down from their January 2006 pre-recession high by 42% (-42%), and with permits down by 46% (-46%) from their September 2005 pre-recession peak activity.

Returning fully to the October 2016 housing starts detail, the dominant, single-unit housing starts component of that series (*Graphs 8* and *9* in the *Opening Comments*) remained down by 52% (-52%) from its January 2006 pre-recession peak.

Reflected in the smoothed graphs in the *Opening Comments*, the various housing-starts series generally were flat, at a low level of stagnation (*Graph 7* for the aggregate), with low-level stagnation in the six-month-smoothed single-unit activity (*Graph 9*), both with minimal upticks in October. That was balanced by a small downtick in September and uptick in October in the smoothed multiple-unit starts (*Graph 11*), which had rebounded and held near pre-recession levels.

Consumer Liquidity Problems Continue to Impair Housing Activity. An extreme consumer-liquidity bind continues to constrain residential real estate sales and related construction activity, as updated in *Commentary No. 846* and *Commentary No. 833*. 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 aggregate real estate activity. 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, including real estate.

October 2016 Housing Starts, Headline Reporting. The broadly unstable and highly volatile aggregate Housing Starts series exploded month-to-month in October, in the context of small upside revisions to September levels. The Census Bureau reported November 18th, a statistically-significant, seasonally-adjusted, headline monthly gain of 25.5% +/- 14.7% (all confidence intervals are expressed at the 95% level) in October 2016 housing starts. That was the highest-percent monthly growth rate in 36 years. Such followed a revised, deepened September monthly decline of 9.5% (-9.5%) [previously down by 9.0% (-9.0%)] and a revised decline of 4.4% (-4.4%) [previously down by 5.6% (-5.6%), initially down by 5.8% (-5.8%)] in August. Net of prior-period revisions, October 2016 housing starts gained 26.4% for the month, instead of the headline 25.5%. Level-of-activity aggregate detail is plotted in *Graphs 4* to *7* of the *Opening Comments*, and in *Graphs 26, 28* and *29* at the end of this section.

Year-to-year change in the seasonally-adjusted, October 2016 aggregate housing-starts measure was a statistically-significant gain, up by 23.3% +/- 16.8%, versus a revised, narrowed annual decline of 11.4% (-11.4%) [previously down by 11.9% (-11.9%)] in September 2016, and an upwardly-revised gain of 2.8% [previously up by 1.6%, initially up by 0.9%] in August 2016.

The October 2016 headline monthly gain of 25.5% in total housing starts encompassed a headline gain of 10.7% in in the "one unit" category and an explosion of 74.5% in the "five units or more" category, which more than offset the revised monthly decline of 39.6% (-39.6%) in that same category in September. There is a missing balance in the "two to four units" category, which collapsed by 35.7% (-35.7%) month-to-month in October, but where that category is consider to be too small to be meaningful, it did affect the aggregates, as discussed later in the broader, aggregate "multiple unit" category.

Where most commonly, not one of the monthly or annual headline changes by category is statistically meaningful, the month-to-month and year-to-year booms in two of the three categories were meaningful, but varied in nature by category.

***Housing Starts By-Unit Category (See Graphs in the* Opening Comments).** Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit structure housing starts—generally for individual consumption, resulting in new home sales—versus multi-unit structure starts that generally reflect the building of condominiums, rental and apartment units.

Housing starts for single-unit structures in October 2016 rose month-to-month by a statistically-insignificant 10.7% +/- 11.9%, following an upwardly revised gain of 8.4% [previously up by 8.1%] in September and an unrevised monthly decline of 5.9% (-5.9%) [initially down by 6.0% (-6.0%)] in August. Net of prior-period revisions, October 2016 single-unit starts rose by 11.0%, instead of the headline 10.7%. October 2016 single-unit starts showed a statistically-significant annual gain of 21.7% +/- 12.6%, versus an upwardly revised annual gain of 5.7% [previously up 5.4%] in September and an unrevised decline in August 2016 of 1.0% (-1.0%) [initially down by 1.2% (-1.2%)] (see *Graphs 6, 7, 10* and *11* in the *Opening Comments*).

Housing starts for apartment buildings, condominiums, etc. (generally 5-units-or-more) in October 2016 gained month-to-month by a statistically-significant 74.5% +/- 44.8%, versus a revised decline of 39.6%

(-39.6%) [previously down by 38.9% (-38.9%)] in September and a shallower decline in August of 4.5% (-4.5%) [previously down by 7.5% (-7.5%), initially down by 6.9% (-6.9%)]. Net of prior-period revisions, October 2016 starts rose by 78.0%, versus the headline 74.5%.

A statistically-insignificant year-to-year gain of 28.2% +/- 45.0% in October 2016, followed a revised crash of 41.4% (-41.4%) [previously down by 42.5% (-42.5%)] in September 2016, and a revised 7.1% gain [previously up by 3.8%, initially up by 2.3%] in August 2016.

Expanding the multi-unit housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be estimated by subtracting the single-unit category from the total category (see *Graphs 4*, *5*, *10* and *11* in the *Opening Comments*).

Accordingly, the statistically-significant October 2016 monthly gain of 25.5% in aggregate starts was composed of a statistically-insignificant gain of 10.7% in one-unit structures and a statistically-significant gain of 68.8% in the multiple-unit structures categories (2-units-or-more, including the 5-units-or-more category). In contrast, again, ex-2-units-or-more, the multiple-unit category gained a headline 74.5%. These series all are graphed in the *Opening Comments*.

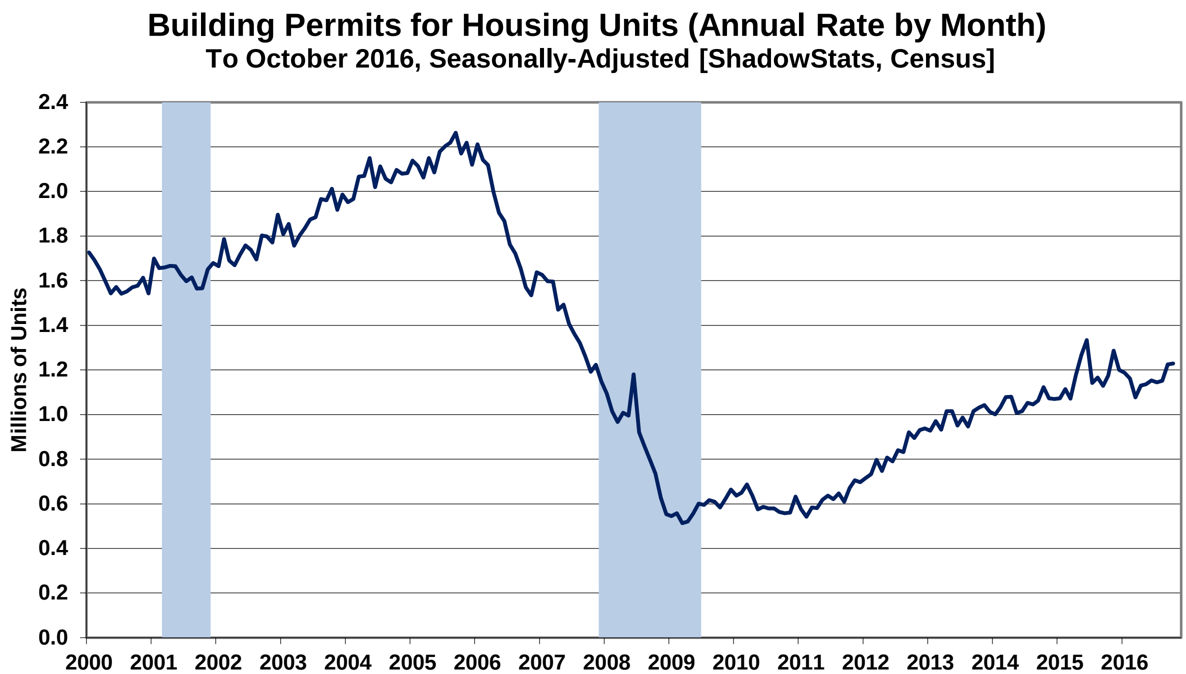
Regular Housing Starts Graphs. Headline reporting of Housing Starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,323,000 in October 2016, versus an upwardly revised 1,054,000 (previously 1,047,000) in September 2016. The scaling detail used in the accompanying aggregate housing starts and building permits *Graphs 25* to *29* reflects those annualized numbers.

Nonetheless, given the nonsensical monthly volatility in headline reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly pace. Consider that the headline 269,000 month-to-month change just reported for the headline annualized October 2016 housing starts was larger than any actual level of (not change in) monthly starts, ever (in units per month, not annualized), for a single month. That is since related starts detail first was published after World War II.

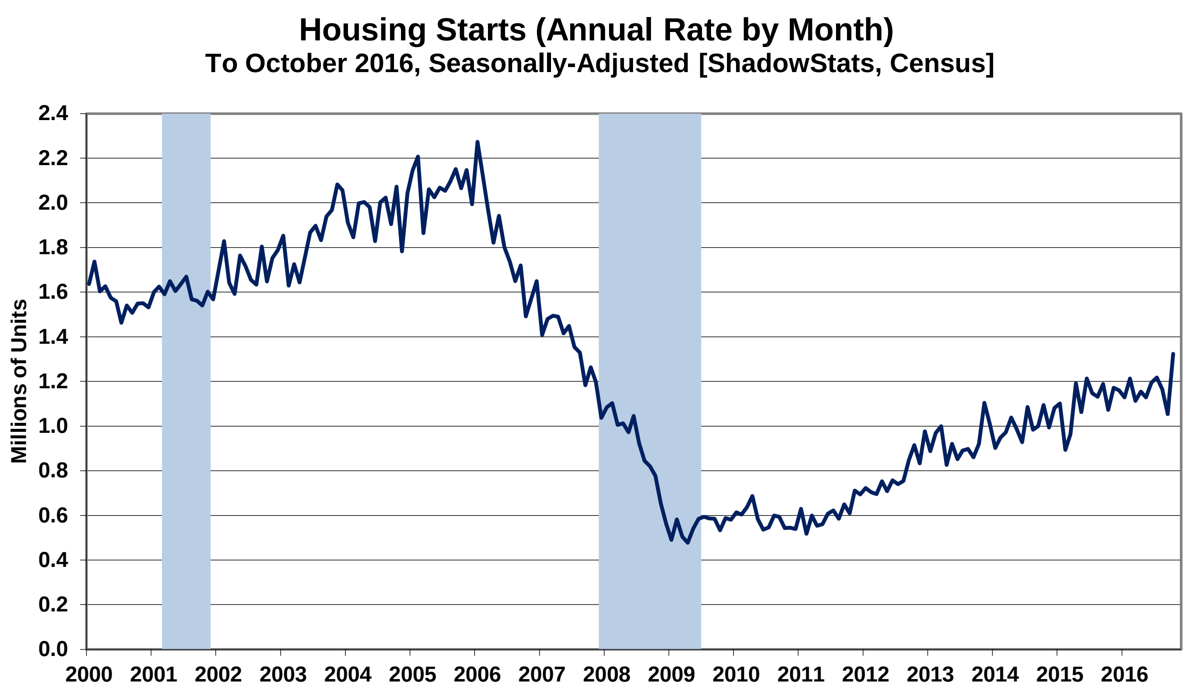
Accordingly, the monthly rate of 110,250 units in October 2016, instead of the annualized 1,323,000-headline number, is used in the scaling of the *Graphs 4* to *11* in the *Opening Comments*. With the use of either scale of units, though, appearances of the graphs and the relative monthly, quarterly and annual percentage changes are otherwise identical, as can be seen in a comparison of *Graph 25* versus *Graph 6* in the *Opening Comments*.

The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of housing starts then was down by 79% (-79%) from the January 2006 pre-recession peak. Against that downside-spiked low in April 2009, the October 2016 headline number was up by 177%, but it still was down by 42% (-42%) from the January 2006 pre-recession high for the series. Shown in the historical perspective of the post-World War II era, current aggregate-starts activity is in relative stagnation still at low levels that otherwise have been seen at or near the historical troughs of other recession activity of the last 70 years, as reflected in accompanying *Graph 29*.

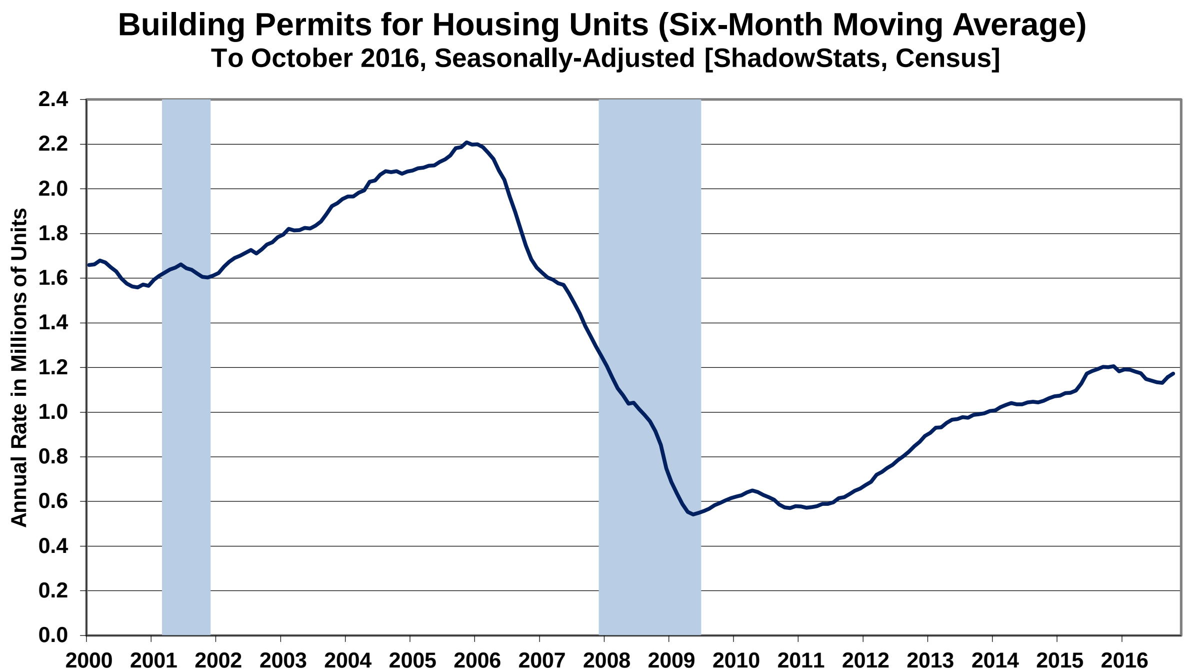
Graph 25: Building Permits (Annualized Monthly Rate of Activity), 2000 to Date



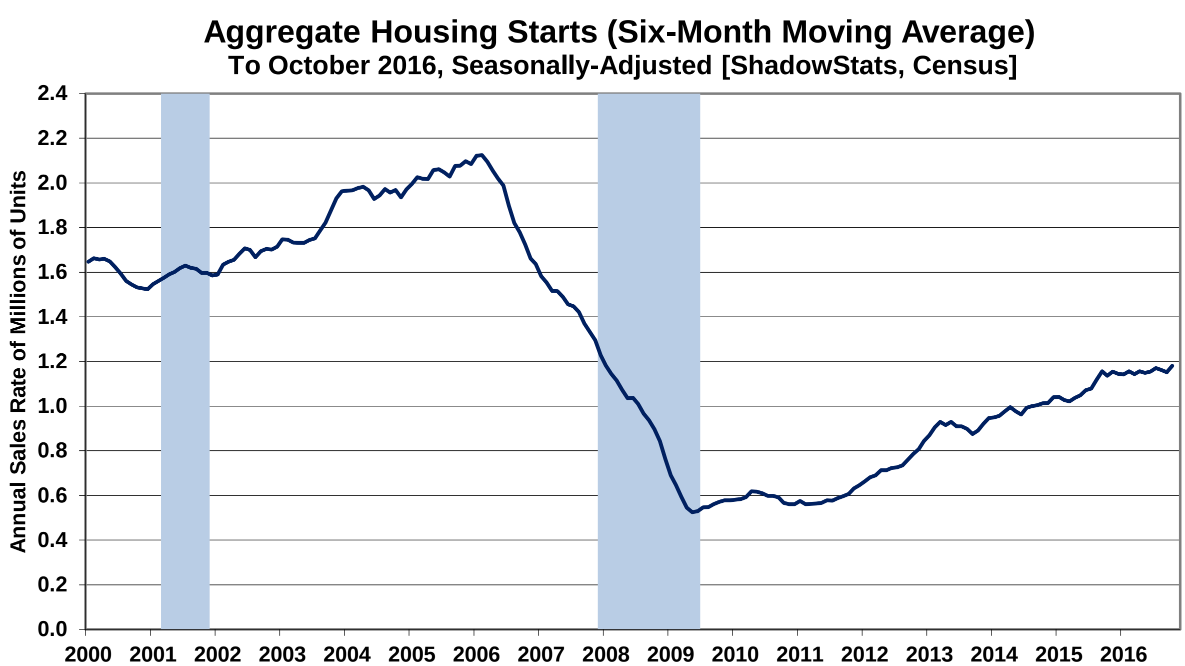
Graph 26: Housing Starts (Annualized Monthly Rate of Activity), 2000 to Date



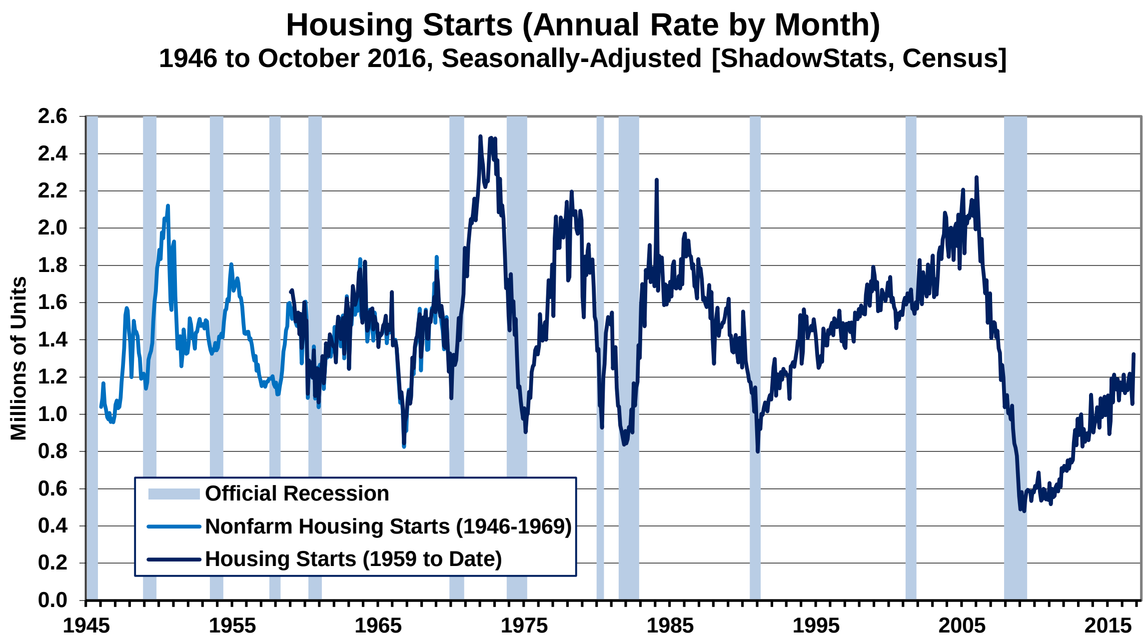
Graph 27: Building Permits (Six-Month Moving Average), 2000 to Date



Graph 28: Housing Starts (Six-Month Moving Average), 2000 to Date



Graph 29: Housing Starts (Annualized Monthly Rate of Activity), 1946 to Date



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 expectations of better business conditions under a Trump Administration, market expectations for near-term business activity should continue to falter, shortly, amidst the ongoing and intensifying, negative headline economic reporting that should continue to play out for at least the next twelve months. Where the apparent, "post-election euphoria" related to the U.S. dollar began before Mr. Trump was declared the "unexpected" victor, one has to wonder who is playing with the markets and for what purposes. That said, a befuddled Fed and re-intensifying banking and fiscal crises foreshadow a U.S. dollar demise in the year ahead, as discussed in today's *Hyperinflation Watch*.

New fiscal stimulus under consideration will have at least a nine-month lead-time before its impact will surface in headline economic activity, most likely not before early-2018. Accordingly, the new Administration likely will face deteriorating funding needs for its own Treasury. In the near-term, the federal deficit should swell, reflecting revenue flows already impaired by the current economic downturn, as well as taking an initial hit from any new federal spending and or from new tax cuts, before the hoped-for increased tax revenues begin to flow from a strengthened economy (see *Commentary No. 846*).

Separately, and most dangerously, the Trump Administration also will have a difficult time working with or around the Federal Reserve's self-created quagmire of continuing domestic and global banking-system illiquidity issues. Again, see today's *Hyperinflation Watch*.

Irrespective of mounting talk of a December FOMC rate hike, the still-ongoing and deepening domestic economic downturn promises continuing, intensified stress on systemic liquidity. That circumstance ultimately—sooner rather than later—dooms the U.S. central bank to an intensified quantitative easing, irrespective of any near-term rate hike.

Commentary No. 848 covered October industrial production and the PPI, where industrial production confirmed ongoing recession, and the PPI showed energy-related inflation turning positive year-to-year, for the first time since the 2014 collapse in oil prices. *Commentary No. 847* reviewed the highly-suspect headline surge in nominal October retail sales, discussed further in today's *Opening Comments*.

Covered in *Commentary No. 845*, October employment and unemployment and September construction spending did not 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. Separate from the strong headline detail in October retail sales, other headline detail from that just-closed month likely will surprise on the downside, as was seen with October labor conditions. Where the retail sales would suggest an upside revision, production and housing detail remain good bets to trigger downside revisions to third-quarter GDP growth estimates.

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 sharply 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 post-election market circumstances are reviewed in today's *Hyperinflation Watch.*

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 last no rate hike, with bleak longer-term implications for the U.S. 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 and October CPIs were spiked by gasoline prices and positive seasonal adjustments. 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 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:

Existing- and New-Home Sales (October 2016). October 2016 Existing-Home Sales are due for release Tuesday, November 22nd, from the National Association of Realtors (NAR), with the October 2016 New-

Home Sales report due from the Census Bureau on Wednesday, November 23rd. Both Existing- and New-Home Sales will be covered in *Commentary No. 850* of November 23rd.

The extreme liquidity bind besetting consumers continues to constrain personal-consumption expenditures, and residential real estate sales, as fully updated in *Commentary No. 846* and *Commentary No. 833*. 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 economic activity, including in residential real estate.

Where the private housing sector never recovered from the business collapse of 2006 into 2009, there remains no chance of a near-term, sustainable turnaround in home-sales activity, without a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

Headline Existing-Home Sales should continue their current general pattern of low-level stagnation, with the current flat-to-plus trend likely to turn lower.

Smoothed for regular extreme and nonsensical monthly gyrations, a pattern of low-level stagnation in New-Home Sales also is likely to continue. Where the pattern of low-level stagnation in new sales has been up-trending in recent months, that should begin to reverse. Monthly changes in activity here rarely are statistically-significant, amidst the otherwise unstable headline reporting and revisions; nonetheless, the series is due for further, significant downside catch-up, possibly in the October 2016 detail.

New Orders for Durable Goods (October 2016). The Census Bureau will report October 2016 New Orders for Durable Goods on Wednesday, November 23rd, which will be covered in *Commentary No. 850* of that date. Net of irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of down-trending real stagnation.

Commercial aircraft orders are booked for the long-term—years in advance—so they have only limited impact on near-term production. Further, by their nature, these types of orders do not lend themselves to seasonal adjustment. As a result, the durable goods measure that best serves as a leading indicator to broad production—a near-term leading indicator of broad economic activity and the GDP—is the activity in new orders, ex-commercial aircraft, adjusted for inflation.

In inflation-adjusted real terms, reflecting PPI-related inflation for manufactured durable goods, likely monthly weakness in will be exacerbated by a monthly inflation jump of 0.42% in October 2016, having declined by 0.06% (-0.06%) in September and having been "unchanged" at 0.00% in August. Related year-to-year annual inflation rose to 0.36% in October 2016, versus annual gains of 0.12% in September 2016 and 0.06% in August 2016 (see prior *Commentary No. 848*).

PENDING SHADOWSTATS UPDATES: Comprehensive *Special Report* and ShadowStats Website. ShadowStats will update fully, into one, massive background piece—a comprehensive *Special Report (Commentary)*—encompassing the latest broad outlook for the U.S. and global economies, financial markets and systems, and inflation (U.S. hyperinflation). Publication has been targeted for Wednesday, November 30th.

The *Special Commentary* will include the latest outlook and will incorporate fully revised materials from 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*. 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. Subsequently, various background articles available at the www.ShadowStats.com site also will be updated, staggered through year-end.

The *Special Commentary* also will include 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.