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

COMMENTARY NUMBER 925

November CPI and PPI Inflation, FOMC

December 13, 2017

Unable to Escape 2008, FOMC Boosted Rates a Quarter-Point, Nonetheless, Amidst Fed Projections of Lower Unemployment and a Stronger GDP

Yet, Fundamentals Still Point to a Weaker Economy as Fed Chair Janet Yellen Described the Economic Outlook as "Highly Uncertain"

Prospects for U.S. Economic and Financial-Market Activity Continued to Darken; Faltering Real Consumer Credit and Earnings Do Not Support the Purported Boom

Amidst Downside Prior-Period Revisions, Fourth-Quarter 2017 Real Average Weekly Earnings Were on Track for Second Consecutive Quarterly Contraction

Monthly and Annual Jumps in CPI and PPI Were Due to Gasoline Price Swings; Headline Inflation Gains Were Not Due to Strong or Over-Heating Economic Activity

November 2017 CPI-U Monthly Inflation Jumped by 0.39% (Was 0.11%) Pulling Annual CPI-U Inflation Higher to 2.20% (Was 2.04%), with CPI-W at 2.32% (Was 2.06%) and ShadowStats at 9.9% (Was 9.8%)

November 2017 Final-Demand PPI Inflation Monthly Gain of 0.44% Pulled Annual Gain to a 70-Month High of 3.07%, versus 2.79% in October 2017

Continuing Monthly Jump of 0.44% in November PPI was Dominated by Gain of 0.98% in Goods Inflation (4.63% Energy Gain), Versus Gain of 0.17% in Services

Inflation Will Soften November Real Retail Sales Growth versus Nominal Growth by 0.4% (-0.4%) Month-to-Month, 2.2% (-2.2%) Year-to-Year

---

PLEASE NOTE: The next Regular Commentary, Friday, December 15th, will cover November Retail Sales and Industrial Production.

Best wishes —John Williams (707) 763-5786

Today's (December 13th) *Opening Comments and Executive Summary.* The *Opening Comments* reviews the latest consumer and producer inflation measures (CPI and PPI) in the context of today's FOMC rate hike. The *Executive Summary* (page 4) highlights specific details from the headline November CPI and PPI.

The ***Reporting Detail*** (page 6) expands the discussion and graphics on the November CPI and PPI reporting.

The ***Hyperinflation Watch*** (page 22) addresses the latest U.S. dollar circumstances and general market outlook, including gold and silver, in the context of today's FOMC actions the *Opening Comments*.

The ***Consumer Liquidity Watch*** (page 25) has been updated for Third-Quarter 2017 Real Household Debt Outstanding and November 2017 Real Average Weekly Earnings.

The ***Week, Month and Year Ahead*** (page 35) provides background on recent *Commentaries* and updates the outlook for the releases later this week of November Retail Sales and Industrial Production.

OPENING COMMENTS

Despite Solid Indications of Renewed Economic Downturn, the Fed Boosted Rates Along with Updated Pollyannaish Economic Forecasts. The Federal Open Market Committee (FOMC) of the Board of Governors of the Federal Reserve System boosted its targeted Federal Funds Rate range by a quarter point to 1-¼ to 1-½ percent, today, December 13th. Such was "In view of realized and expected labor market conditions and inflation..." and in conjunction with the release of updated projections of the FOMC participants. Accordingly, the Fed's outlook is for stronger GDP growth, for lower unemployment and for GDP-based inflation holding at about 2.0% in the year ahead. The "improved" forecasts were credited to the highly-problematic and still-pending tax package.

Those three economic markers of GDP, employment and inflation, however, also happen to be the most heavily massaged and gimmicked numbers put out by the federal government, with headline details that tend to have little or no relationship to underlying reality, versus prior practice and as measured by common experience.

ShadowStats addresses those areas regularly, as discussed in today's *Commentary* on inflation, along with comments on labor conditions in prior *Commentary No. 924* and the GDP in *Commentary No. 923*. Other references to underlying economic reality are found in the *Public Commentary on Inflation Measurement* and the *Public Commentary on Unemployment Measurement*. See, also, in particular, *No. 859 Special Commentary* as to the FOMC and the Federal Reserve's circumstance post-Panic of 2008.

The FOMC knows better. The pattern here has been to give lip-service to the over-stated, reported economic activity and understated inflation, a circumstance that tends to mask damages to the liquidity, employment and the financial-distress of many Americans, but which plays well in the financial press and with Wall Street. That underlying consumer financial distress, though, likely was the primary driving force behind the unexpected results of the 2016 U.S. Presidential election (see *Commentary No. 846*).

Post-Panic of 2008, the Federal Reserve openly focused on supporting banking-system liquidity as opposed to concentrating on boosting broad domestic economic activity. The Fed's internal, primary function always has been to keep the domestic (and in recent decades, global) banking systems solvent, and the quantitative easing (QE) programs were designed to bail out the banks. QE was touted to the public as a boost to the economy, but it never was, other than preventing a banking-system collapse. The Fed's claim of QE helping the economy simply was political cover for the bailout program. The general economy never was addressed meaningfully, and that circumstance likely will do little to quell electorate discontent going into the 2018 Congressional election.

But the Economic Outlook is "Highly Uncertain." Following the formal FOMC statement, Federal Reserve Chair Janet Yellen reviewed the new economic forecasts at her press conference, and then qualified her comments with a note that the economic outlook was "highly uncertain."

Such concern certainly is well based in terms of continuing weakness and non-expansion seen in major economic sectors such as construction, manufacturing and trade activity along with a variety of economic indicators ranging from freight volume to domestic consumption of petroleum. Historically-low employment measures such as the participation-rate, which has been signaling significant stress in employment conditions, was been sloughed off as "stable," despite its being near historic lows, a highly negative circumstance.

In the headline reporting covered in today's missive, consider that third-quarter 2017, inflation-adjusted consumer debt outstanding is holding flat, still never having recovered its pre-recession high. Separately, real average weekly earnings contracted quarter-to-quarter in third-quarter 2017, with the fourth-quarter 2017 on trend for a deepening contraction (see the *Reporting Detail-CPI/Real Average Weekly Earnings*, and the *Consumer Liquidity Watch*). Such circumstances generally do not support or lead booming economic activity.

Still No Way Out for the Fed. Again as frequently discussed here, broad economic activity never recovered fully from its crash into 2009, and it has started to turn down anew. Headline economic reporting—outside of the effects recent hurricane distortions still are working through the system—had shown a marked downturn versus consensus forecasts, and generally will has or will continue to do so in the near future. While these circumstances usually signal an unfolding, major downshift in underlying economic reality, at present, they also forewarn of a potential shift in FOMC activity, despite the current tightening and pending shift in Fed chairmanship. While such remains well removed from consensus expectations, at this time, in terms of Fed policy, that still would mean a cessation of incremental rate hikes and a shift back towards expanded quantitative easing.

Immediate effects of such a policy change likely would include a massive sell-off in the U.S. dollar, which otherwise has been propped by recent FOMC rate hikes and continual jawboning for same. In parallel, heavy selling in the U.S. equity and credit markets would follow. As consensus economic forecasts begin to soften anew, so too, increasingly should the U.S. dollar exchange rate, while gold prices should rally in tandem. The circumstances here and the outlook still remain as broadly outlined in *No. 859 Special Commentary*; currently shifting headlines only reflect the continued movement and evolution forward in time of the Fed's difficulties discussed in that missive.

This section leads into the *Hyperinflation Watch* and its regular graphs on page 22 . Elements of these comments are reflected there, and will be updated in the weeks ahead, as oncoming economic reporting and political developments are assessed.

EXECUTIVE SUMMARY: Consumer Price Index—November 2017—CPI-U Rose 0.4% Month-to-Month, 2.2% Year-to-Year. Gasoline price volatility continued to spike headline CPI-U monthly inflation, but the headline 0.4% November monthly gain all was in the seasonals. Unadjusted, the CPI-U was unchanged at 0.0% month-to-month. The Bureau of Labor Statistics (BLS) reported a seasonally-adjusted 0.39% monthly gain in November 2017, following previously reported monthly gains of 0.11% in the October, and 0.55% in September. Unadjusted year-to-year inflation rose by 2.20% in November 2017, 2.04% in October 2017 and 2.23% in September 2017.

Despite recent month-to-month volatility, current year-to-year inflation still has remained well shy of its 60-month high of 2.74% of February 2017, having hit a near-term trough of 1.63% in June 2017, with rebounds to 1.73% in July 2017 and 1.94% in August 2017. What led the recent inflation surge into the February 2017 CPI annual gain was driven by rising gasoline prices, not by economic demand, and the same is true in the latest circumstance. The inflation surges and declines of the recent past and present have not been driven by an overheating economy, as claimed by some on the Fed's FOMC, but rather by highly unstable gasoline prices.

Still, with unadjusted annual November 2017 CPI-U inflation at 2.20%, 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. Moving on top of the unadjusted annual changes to the CPI-U, the ShadowStats-Alternate Inflation Measures showed year-to-year inflation in November 2017 of 5.8%, based on 1990 methodologies, and of 9.9%, based on 1980 methodologies.

The Consumer Price Index for All Urban Consumers (CPI-U) is the broadest headline consumer-inflation number, used to adjust numerous economic measures such as retail sales for inflation effects (see this coming Friday's *Commentary No. 926*). The narrower Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is used for deflating measures such as earnings for production and nonsupervisory employees on private nonfarm payrolls (see *Graph 1*). More heavily weighted for the rising gasoline prices, the November 2017 seasonally-adjusted CPI-W rose month-to-month by 0.50%, versus gains of 0.08% in October and 0.66% in September. Unadjusted, year-to-year change in the November 2017 CPI-W was 2.32%, versus 2.05% in October 2017 and 2.31% in September 2017.

Real Average Weekly Earnings—November 2007—Monthly and Quarterly Real Earnings in Ongoing Contractions, in Context of Downside Revisions. The headline estimate for November 2017 real average weekly earnings was published along with this morning's release of the headline November 2017 CPI-W. In the production and nonsupervisory employees category—the only series for which there is a meaningful history, the regularly-volatile real average weekly earnings declined month-to-month by 0.27% (-0.27%) in November 2017, versus a gain of 0.08% in October and declines of 0.30% (-0.30%) in

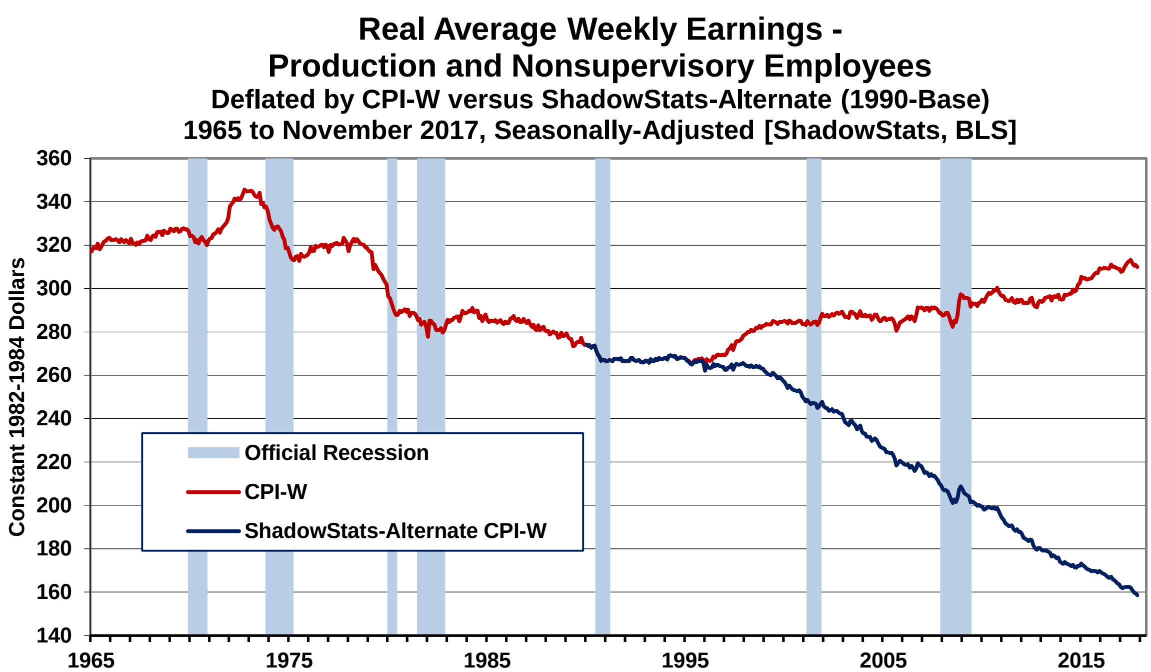
September 0.53% (-0.53%) in August. Year-to-year, the adjusted November 2017 real change slowed to 0.25%, from gains of 0.40% in October 2017, 0.18% in September 2017 and 0.47% in August 2017.

The third full estimate of annualized quarterly change in third-quarter 2017 real average weekly earnings contracted by 0.07% (-0.07%) in revision. Fourth-quarter 2017 is on early track for an annualized contraction of 1.71% (-1.71%) based on two months of reporting in fourth-quarter 2017.

Second-quarter 2017 activity reflected an unrevised, annualized real quarterly gain of 4.43%, following contractions in first-quarter 2017 of 1.13% (-1.13%), in fourth-quarter 2016 of 1.36% (-1.36%), and third-quarter 2016 growth of 1.48%, a second-quarter 2016 contraction of 0.11% (-0.11%) and first-quarter 2016 annualized growth of 1.81%.

Year-to-year growth in the third estimate of third-quarter 2017 real earnings also revised to 0.44% [previously 0.45%]. Fourth-quarter 2017 is on early track for a 0.35% year-to-year gain, based on October and November reporting. That had been 0.62%, based solely on the initial estimate for October 2017.

Graph 1: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date
(Same as Graph CLW-7 in the Consumer Liquidity Watch)



Graph 1 shows 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.

Producer Price Index (PPI)—November 2017—Annual Inflation at a 70-Month High of 3.1% Reflected Gasoline Price Distortions, Not an Overheating Economy. Once again, the headline year-to-year PPI Final Demand (PPI-FD) inflation hit a multi-year high, at 3.07% for November 2017 (highest since January 2012). Once again, the recent relative strength in annual inflation was tied to unusual swings in gasoline prices and resulting energy inflation; it did not reflect an overheating economy, despite continuing claims to the contrary by some on the FOMC.

The old-fashioned, headline seasonally-adjusted monthly goods inflation in November 2017 was 0.98%, versus 0.27% in October and 0.72% in September, all spiked by rising or falling gasoline prices, again driven by factors other than underlying, broad economic activity. The headline November aggregate price gain of 0.98%, reflected food prices up by 0.26%, with energy prices up by 4.63%, and "core" inflation (ex-food and energy) up by 0.26%.

Continued nonsensical movements in the hypothetical services inflation numbers are detailed, along with the specific goods sectors in the *Reporting Detail.*

[Extended analysis and graphics follow in the* Reporting Detail.*]

REPORTING DETAIL

CONSUMER PRICE INDEX (November 2017)

All in the Seasonals, November CPI-U Jumped to 0.39% Month-to-Month and regained 2.20% Year-to-Year, with the Fed's Targeted "Core" Annual Inflation Slowing, Still Holding Below 2.0%. Thanks to the unstable patterns of Bureau of Labor Statistics (BLS) seasonal adjustments against extremely volatile and irregular patterns of monthly movements in gasoline prices, in particular, what was a headline jump of 0.39% in the monthly CPI-U, was "unchanged" at 0.00% not seasonally adjusted.

Repeating patterns of recent years, more-positive seasonal adjustment factors, beginning in July 2017, started to boost the headline reporting of CPI-U inflation in the second-half of the calendar year, reversing the negatively-biased reporting of the seasonally-adjusted monthly inflation in the first-half of 2017. Unadjusted annual growth rebounded slightly to 2.20% in November 2017, from a previously weakened 2.04% in October 2017, still well shy of its 60-month high of 2.74% in February 2017, having hit a subsequent near-term trough of 1.63% in June 2017, with rebounds to 1.73% in July 2017, to 1.94% in August 2017 and 2.23 in September 2017.

What had led to the recent inflation surge into the February 2017 CPI annual gain were rising gasoline prices, largely independent of near-term economic activity. The same remains true in the current circumstance. Near-term inflation volatility largely reflects volatile gasoline prices, which reflect a number of factors such as the U.S. dollar and Federal Reserve policies. These inflation surges, past and present, have not been driven by an overheating economy, as claimed by some on the Fed's FOMC. Indeed, the FOMC's favored CPI-U inflation measure, the "Core" rate, net of food and energy, was at an unadjusted 1.7% in November 2017, where it has held for five of the last six months, otherwise tied as the lowest annual core inflation rate since 1.6% in December 2015.

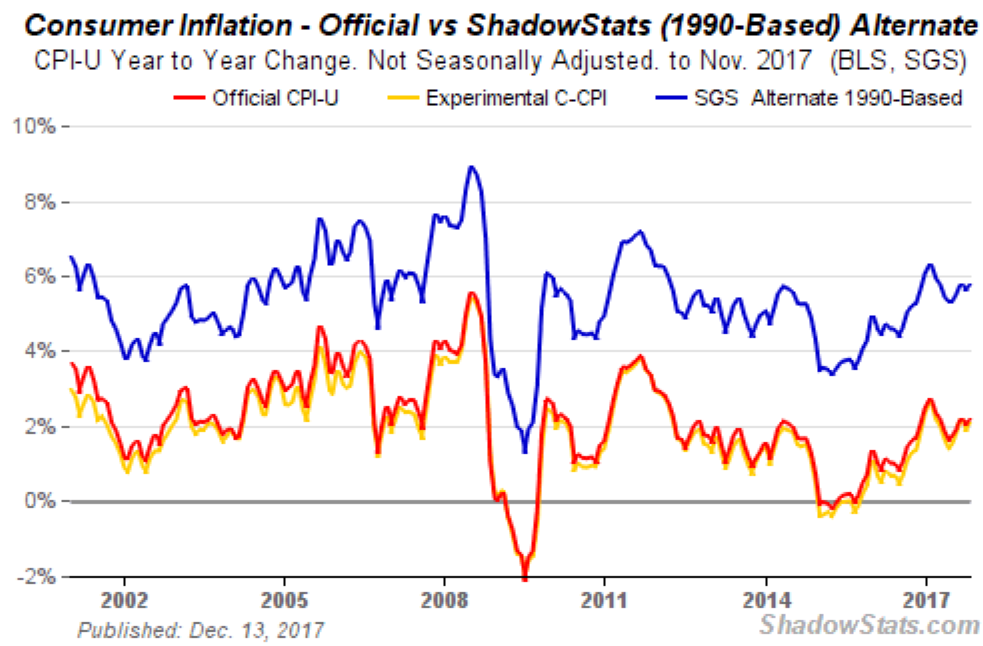
Separately, with unadjusted annual November 2017 CPI-U inflation up by 2.2, year-to-year inflation is not and has not been quite as low as indicated, when considered in the context of traditional CPI reporting and common experience. Moving on top of the unadjusted annual changes to the CPI-U, the ShadowStats-Alternate Inflation Measures showed year-to-year inflation in November 2017 at 5.8%, based on 1990 methodologies, and at 9.9%, based on 1980 methodologies.

Longer-Range Inflation Outlook. Despite U.S. dollar strength of recent years, and what had been accelerating, now increasingly faltering dollar strength, subsequent to the post-election euphoria and despite today's rate hike, a tremendous threat to the dollar and systemic liquidity and stability continues. That is tied to the U.S. Federal Reserve's ongoing inability to resolve fundamentally the 2008 financial collapse, other than having bought limited time with its emergency, stopgap measures. Discussed briefly in the *Opening Comments*, recent Fed tightening actions, including today's, have been despite continued, intensifying "adverse" economic circumstances (irrespective of a brief period of hurricane-related distortions). The U.S. central bank has been forced to prop banking-system liquidity against the ongoing gale of renewed, economically-driven, banking-system solvency and liquidity issues, with pressures intensified by recent systemic disruptions from natural disasters, increasing political discord in Washington and mounting global political instabilities. Despite strong speculation and protestations to the contrary, ultimately, the FOMC should end up reverting to renewed and expanded quantitative easing.

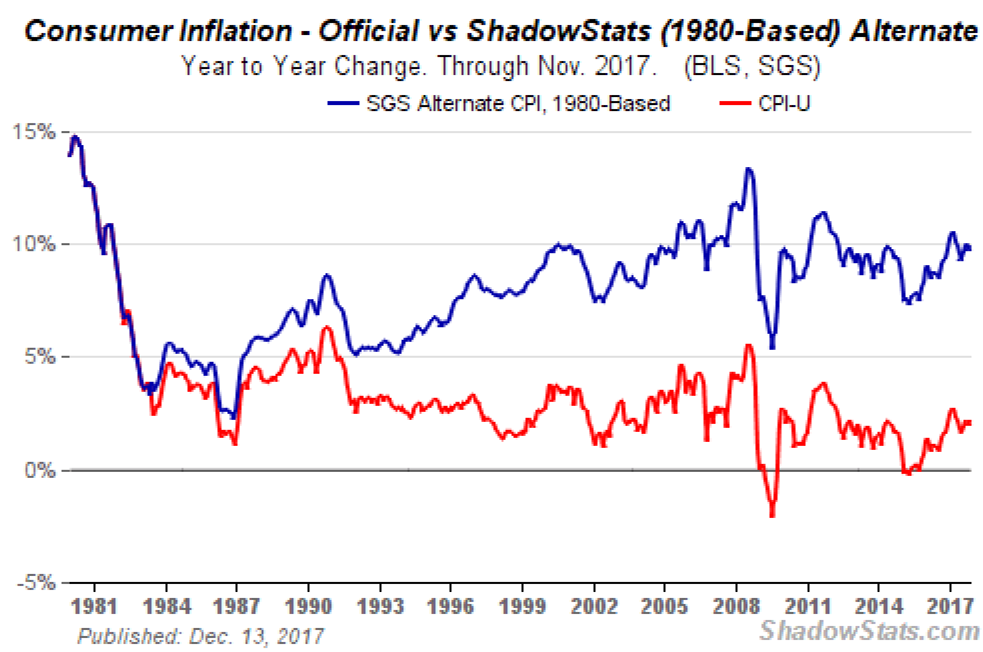
Compounding the high-risk of a near-term run on the U.S. dollar remains mounting recognition in global markets of the Fed's conundrum. The U.S. Federal Reserve and other central banks still have no effective idea as to how to boost current economic activity, how to stabilize global banking-system solvency, or otherwise how to slog their way out of a self-generated quagmire. That circumstance only can be exacerbated by intensifying economic and political uncertainties (see the *Opening Comments* and *Hyperinflation Watch*).

[Graphs 2 and 3 follow on the next page.]

Graph 2: Comparative Headline Year-to-Year Change, CPI-U vs. ShadowStats 1990-Based Alternate



Graph 3: Comparative Headline Year-to-Year Change, CPI-U vs. ShadowStats 1980-Based Alternate



____

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)** was an experimental measure—now set to go active, formally, with pending 2017 Tax Reform (see the Opening Comments)—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.*

____

CPI-U. The Bureau of Labor Statistics (BLS) reported this morning, December 13th, that the headline, seasonally-adjusted November 2017 CPI-U inflation increased month-to-month by 0.4% [up by 0.39% at the second decimal point, following gains of 0.1% [0.11%] in October, 0.5% [0.55%] in September, 0.4% [0.40%] in August and 0.1% [0.11%] in July, "unchanged" at 0.0% [an actual decline of 0.02% (-0.02%)] in June, a monthly decline of 0.1% (-0.1%) [0.13% (-0.13%)] in May, an increase in April of 0.2% [0.17%], a March drop of 0.3% (-0.3%) [down by 0.29% (-0.29%)], and monthly gains of 0.1% [0.12%] in February, 0.6% [0.55%] in January, and 0.3% [0.26%] in December 2016.

Unadjusted monthly November 2017 CPI-U was unchanged at 0.00%, having declined in October by 0.06% (-0.06%), having gained by 0.53% in September and 0.30% in August, having declined in July by 0.07% (-0.07%), and having gained by 0.09% in June, 0.09% in May, 0.30% in April, 0.08% in March, 0.31% in February, 0.58% in January and 0.03% in December 2016.

Major CPI-U Groups. In the context of some recovery from hurricane-induced gasoline price swings, in combination with other recent short-term gasoline price volatility and heavily-positive seasonal adjustments, the jump in adjusted November 2017 CPI-U monthly inflation reflected soaring energy costs, with minimal contributions from food and "core" inflation (everything but food and energy). On an unadjusted basis, the total November CPI-U was unchanged, with the monthly contribution from energy prices (reduced 74% from its seasonally-adjusted version) offset by declining food and "core" prices.

Encompassed by the November 2017 CPI-U seasonally-adjusted monthly gain of 0.39% [unchanged at 0.00% on an unadjusted basis], food inflation gained by 0.02% [declined by 0.20% (-0.20%) unadjusted], energy inflation rose by 3.90% [rose by 1.01% unadjusted], while the adjusted "Core" (ex-food and energy) inflation rate rose by 0.12% [declined by 0.06% (-0.06%) unadjusted].

Still running contrary to FOMC hopes and expectations, "Core" CPI-U inflation has yet to regain or hold 2.0% in the current cycle, showing a reduced, unadjusted year-to-year inflation rate of 1.71% in November 2017, versus 1.77% in October 2017, 1.69% in September 2017, 1.68% in August 2017, 1.69% in July 2017, 1.70% in June 2017, 1.73% in May 2017, 1.88% in April 2017, 2.00% in March 2017, 2.22% in February 2017, 2.27% in January 2017 and versus 2.20% in December 2016.

November 2017 seasonal adjustments for monthly gasoline inflation—usually reflective of the dominant pressure in energy prices—continued the pattern of turning positive in the second-half of the year, for July, August, September, October and November (December should follow), having been heavily negative in first-half 2017, from February on. Such turned a November 2017 CPI-U unadjusted monthly gain of 2.58% in gasoline prices to an adjusted monthly gain of 7.31%. The Department of Energy (DOE) had estimated an unadjusted monthly gain in November of 2.2%.

With early-December 2017 retail gasoline prices (DOE) running lower month-to-month versus November, by an order of magnitude of 1.3% (-1.3%), despite positive seasonal adjustments to December 2017 gasoline prices, there remains a likely net-negative monthly impact of gasoline prices on the headline December CPI, both before and after positive seasonal adjustments.

Year-to-Year CPI-U. Not seasonally adjusted, November 2017 year-to-year inflation for the CPI-U increased by 2.2% [2.20% at the second decimal point], versus gains of 2.0% [2.04%] in October 2017, 2.2% [2.23%] in September 2017, 1.9% [1.94%] in August 2017, 1.7% [1.73%] in July 2017, 1.6% [1.63%] in June 2017, 1.9% [1.87%] in May 2017, 2.2% [2.20%] in April 2016, 2.4% [2.38%] in March 2017, a 60-month high of 2.7% [2.74%] in February 2017, 2.5% [2.50%] in January 2017 and 2.1% [2.07%] in December 2016.

Year-to-year, CPI-U inflation would increase or decrease in next month's December 2017 reporting, dependent on the seasonally-adjusted month-to-month change, versus the adjusted, headline gain of 0.26% in December 2016 CPI-U. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for December 2017, the difference in December's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the unadjusted November 2017 annual inflation rate of 2.20%. Given an early guess of a 0.1% to 0.2% seasonally-adjusted monthly gain in December CPI-U, that would leave the annual CPI-U inflation rate for December 2017 at about 2.1%, plus-or-minus.

Quarterly CPI-U. On an annualized quarter-to-quarter basis, seasonally-adjusted CPI-U rose by 2.01% in third-quarter 2017, declined by 0.31% (-0.31%) in second-quarter 2017, having gained by 3.15% in first-quarter 2017, 3.04% in fourth-quarter 2016, 1.78% in third-quarter 2016, 2.33% in second-quarter 2016 and 0.11% in first-quarter 2016.

On an unadjusted, year-to-year basis, annual inflation by quarter was up by 1.97% in third-quarter 2017, versus 1.90% in second-quarter 2017, 2.54% in first-quarter 2017, 1.80% in fourth-quarter 2016, 1.12% in third-quarter 2016, 1.05% in second-quarter 2016 and 1.08% in first-quarter 2016.

Annual Average CPI-U. The annual average CPI-U inflation rate was an unadjusted 1.26% in 2016, versus 0.12% in 2015.

CPI-W. The November 2017 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 0.50%, following monthly gains of 0.08% in October, 0.66% in September, 0.46% in August and 0.10% in July, and declines of 0.05% (-0.05%) in June and 0.20% (-0.20%) in May, a monthly gain of 0.18% in April, a decline of 0.37% (-0.37%) in March, and gains of 0.06% in February, 0.61% in January 2017 and 0.29% in December 2016.

On an unadjusted basis, year-to-year CPI-W rose to 2.32% in November 2017, versus 2.05% in October 2017, 2.31% in September 2017, 1.93% in August 2017, 1.64% in July 2017, 1.50% in June 2017, 1.78% in May 2017, 2.14% in April 2017, 2.35% in March 2017, 2.82% in February 2017, 2.51% in January 2017 and 1.99% in December 2016.

Quarterly CPI-W. On an annualized quarter-to-quarter basis, seasonally-adjusted CPI-W rose by 2.14% in third-quarter 2017, having declined by 0.77% (-0.77%) in second-quarter 2017, having gained by 3.22% in first-quarter 2017, by 3.30% in fourth-quarter 2016, 1.54% in third-quarter 2016 and 2.35% in second-quarter 2016, having declined in first-quarter 2016 by 0.55% (-0.55%). On an unadjusted year-to-year basis, annual inflation by quarter was up by 1.96% in third-quarter 2017, versus 1.80% in second-quarter 2017, 2.56% in first-quarter 2017, 1.65% in fourth-quarter 2016, 0.76% in third-quarter 2016, 0.71% in second-quarter 2016 and 0.79% in first-quarter 2016.

Annual CPI-W. The annual average CPI-W inflation rate was 0.98% in 2016, versus an unadjusted annual average contraction of 0.41% (-0.41%) in 2015.

Chained-CPI-U. The headline C-CPI-U is not seasonally adjusted, but it is revised quarterly for the prior year, as was seen with last month's October 2017 reporting, in which annual inflation rates revised lower by 0.05% (-0.05%) for each month back through December 2016. The headline annual inflation rate for the C-CPI-U in November 2017 was 2.11%, following annual gains of 1.89% in October 2017, 2.17% in September 2017, 1.77% in August 2017, 1.46% in July 2017, 1.35% in June 2017, 1.62% in May 2017, 1.98% in April 2017, 2.16% in March 2017, 2.62% in February 2017, 2.31% in January 2017 and 1.81% in December 2016.

Quarterly C-CPI-U, Year-to-Year. On an unadjusted, year-to-year basis, annual inflation by quarter was up by 1.80% in third-quarter 2017, versus 1.65% in second-quarter 2017, 2.36% in first-quarter 2017, 1.50% in fourth-quarter 2016, 0.74% in third-quarter 2016, 0.73% in second-quarter 2016 and 0.76% in first-quarter 2016.

Annual Average C-CPI-U. The annual average C-CPI-U inflation rate was 0.93% in 2016, versus an annual-average price index contraction of 0.12% (-0.12%) in 2015.

See the *Opening Comments* of *Commentary No. 920* as to the pending overhaul to federal income taxes in the current tax bill, and discussions in the earlier *Commentary No. 721* and in the opening notes in the *CPI Section* of *Commentary No. 699* as to the most-recent changes in the series. More-frequent revisions and earlier finalization of monthly detail broadly 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 5.8% in November 2017, versus 5.6% in October 2017, 5.8% in September 2017, 5.5% in August 2017, 5.3% in July 2017, 5.2% in June 2017, 5.5% in May 2017, 5.8% in April 2017, 6.0% in March 2017, 6.3% in February 2017, 6.1% in January 2017 and 5.7% in December 2016.

The November 2017 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 9.9% (9.95% at the second decimal point), versus 9.8% (9.78%) in October 2017, 10.0% (9.98%) in September 2017, 9.7% (9.67%) in August 2017, 9.4% (9.44%) in July 2017, 9.3% (9.34%) in June 2017, 9.6% (9.60%) in May 2017, 10.0% (9.95%) in April 2017, 10.1% (10.14%) in March 2017, 10.5% (10.53%) in February 2017, 10.3% (10.27%) in January 2017 and 9.8% (9.81%) in December 2016. Detail, along with an inflation calculator will be found in the CPI section of the Alternate Data tab of the ShadowStats home page: www.ShadowStats.com.

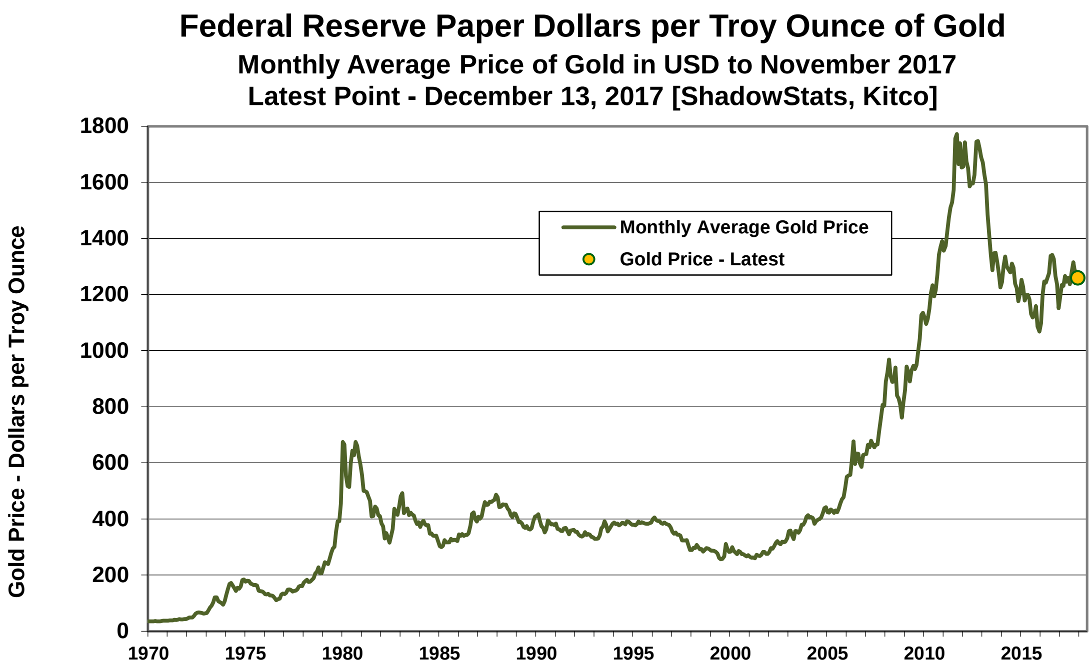
Note: The ShadowStats-Alternate Consumer Inflation Measures largely have been reverse-engineered from BLS estimates of the anticipated impact on annual CPI inflation from various changes made to CPI reporting methodology since the early 1980s, as also incorporated in the CPI-U-RS series. That series 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.)*

Graph 4: Monthly Average Gold Price in Dollars (Federal Reserve Notes)



Gold and Silver Historic High Prices Adjusted for November 2017 CPI-U/ShadowStats Inflation—

CPI-U: GOLD at $2,695 per Troy Ounce, SILVER at $157 per Troy Ounce
ShadowStats: GOLD at $14,688 per Troy Ounce, SILVER at $855 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 $2,695 per troy ounce, based on November 2017 CPI-U-adjusted dollars, and $14,668 per troy ounce, based on November 2017 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 November 2017 CPI-U inflation, the 1980 silver-price peak would be $157 per troy ounce and would be $855 per troy ounce in terms of the

November 2017 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

Shown in *Table 1*, on page 47 of *No. 859 Special Commentary*, 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).

Real Retail Sales—November 2017—Tomorrow's Nominal Retail Sales Growth Rates, Net of CPI Inflation, Will Take Hits of 0.39% (-0.39%) Month-to-Month and 2.20% (-2.20%)Year-to-Year. Detail follows in the Friday, December 15th *Commentary No. 926* (see also *Pending Economic Releases* in today's *Week, Month and Week, Month and Year Ahead* section).

Real Average Weekly Earnings—November 2007—Monthly and Quarterly Real Earnings in Ongoing Contractions, in Context of Downside Revisions. *[Note: Details are plotted in the Executive Summary, Graph 1, and in the Consumer Liquidity Watch, Graph CLW-7.]* The headline estimate for November 2017 real average weekly earnings was published along with the release of the headline November 2017 CPI-W. In the production and nonsupervisory employees category—the only series for which there is a meaningful history, the regularly-volatile real average weekly earnings declined month-to-month by 0.27% (-0.27%) in November 2017, versus a downwardly revised gain of 0.08% [previously 0.17%] in October, a deepened decline of 0.30% (-0.30%) [previously down by 0.25% (-0.25%)] in September and an unrevised decline of 0.53% (-0.53%) in August.

Year-to-year, the adjusted November 2017 real change slowed to 0.25%, from a downwardly-revised gain of 0.40% [previously 0.54%] in October 2017, versus 0.18% [previously 0.23%] in September 2017 and an unrevised 0.47% in August 2017.

The third full estimate of annualized quarterly change in third-quarter 2017 real average weekly earnings contracted by 0.07% (-0.07%) in revision [previously down by 0.01% (-0.01%)]. Fourth-quarter 2017 is on early track for an annualized contraction of 1.71% (-1.71%) based on two months of reporting in fourth-quarter 2017. Based solely on the initial estimate for October 2017, the early trends had been for a contraction of 0.70% (-0.70%).

Second-quarter 2017 activity reflected an unrevised, annualized real quarterly gain of 4.43%, following contractions in first-quarter 2017 of 1.13% (-1.13%), in fourth-quarter 2016 of 1.36% (-1.36%), and third-quarter 2016 growth of 1.48%, a second-quarter 2016 contraction of 0.11% (-0.11%) and first-quarter 2016 annualized growth of 1.81%.

Year-to-year growth in the third estimate of third-quarter 2017 real earnings also revised to 0.44% [previously 0.45%]. Fourth-quarter 2017 is on early track for a 0.35% year-to-year gain, based on October and November reporting. That had been 0.62%, based solely on the initial estimate for October 2017.

Year-to-year change in second-quarter 2017 real earnings was unrevised at 0.83%, following an annual contraction of 0.29% (-0.29%) in first-quarter 2017, which had been the first annual or year-to-year quarterly contraction since fourth-quarter 2012, when the real GDP effectively was unchanged quarter-to-quarter. The signal there highlighted financial stresses on the consumer and continuing major downside risk to headline real GDP reporting.

The 2015 rally in real annual income and the subsequent slowdown in latter 2016 and pickup, now slowdown in 2017 remain tied directly to the impact of irregularly-collapsing/rising gasoline prices, and intermittent, subsequent rebound/decline in inflation-adjusted income.

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 monthly data here are not comparable due to reporting issues with concurrent seasonal factor adjustments (see *Headline Distortions from Shifting Concurrent-Seasonal Factors* in prior *Commentary No. 924*, *Supplemental Labor-Detail Background* on page 30).

Separately, the CPI-W-deflated reporting here also is biased 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 seen in November 2017 detail, where stronger, seasonally adjusted gasoline prices helped to generate a headline, seasonally-adjusted CPI-W gain of 0.50% month-to-month, versus the parallel CPI-U gain of 0.39%.

Again, *Graph 1* in the *Executive Summary* and *Graph CLW-7* in the *Consumer Liquidity Watch*, plot 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.

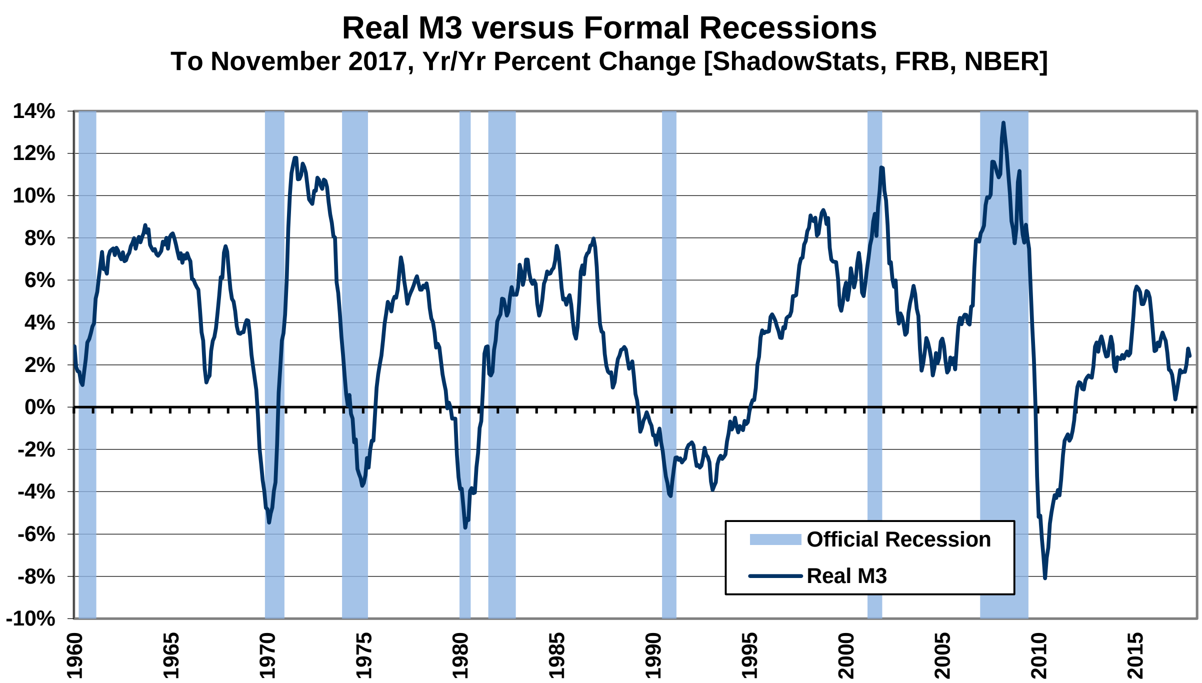
Real (Inflation-Adjusted) Money Supply M3—November 2017—Annual Growth Fell Back, Reflecting a Resumed Surge in the CPI-U Relative to a Pull Back in Nominal M3 Growth. The signal for a double-dip, multiple-dip or simply protracted, ongoing recession, based on annual contraction in the real (inflation-adjusted) broad money supply (M3), recently had been re-triggered/intensified, but that signal then softened with a continuing, contrary bounce since May 2017. The previous signal had been, and has remained in place, despite real annual M3 growth having rallied into positive territory post-2010, and the real growth pattern having turned down anew, with annual nominal M3 growth slowing faster than CPI-U annual inflation into June 2017, followed by with the reversal of trend into October 2017, which just turned down, once again, with the headline November 2017 detail.

Shown in *Graph 5*—based on the November 2017 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in November 2017 M3 moved lower to 2.43%, versus a revised 2.76% [previously 2.77%] in October 2017, versus a revised 2.04% [previously 2.03%] in September 2017 and an unrevised 1.67% in August 2017. Those levels of activity remained down from unrevised peak growth of a 5.71% in February 2015. The decline in the November versus the October number, reflected an decrease in nominal November 2017 M3 annual growth to 4.63%, from a revised 4.80% [previously 4.81%] in October 2017, versus a revised 4.26% [previously 4.24%] in September 2017, and an unrevised 3.61% in August 2017 (see *Commentary No. 924*), with offsets from unadjusted headline CPI-U annual inflation of 1.94% in August 2017, 2.23% in September 2017, 2.04% in October 2017 and 2.20% in November 2017 (see the November CPI-U headline detail).

The recent monthly upticks in annual growth still likely reflected a temporary reversal in the pattern of plunging annual growth, which has held at levels last seen in plunging growth into the 2009 economic collapse, a level always seen going into, or already in a recession.

The signal for a downturn or an intensified downturn is generated when annual growth in real M3 first slows sharply, approaches zero and 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 previous "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 2009 (see *Commentary No. 877* and *Commentary No. 902-B*). The initial economic downturn never evolved into a meaningful or sustainable recovery. The current level and pattern of real annual M3 growth generally has been followed by annual contraction and recession signal.

Graph 5: Real M3 Annual Growth versus Formal Recessions



Again, when real M3 growth breaks above zero, there is no signal; the signal is generated only when annual growth moves to zero and into negative territory, from which it has backed off 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—in protracted stagnation—with no actual recovery (see *Commentary No. 923*, and the *ECONOMY* section of *No. 859 Special Commentary*).

Despite the purported, ongoing recovery shown in headline GDP activity, a renewed downturn in official data is underway that likely still will gain official recognition as a "new" recession, in the months ahead. Underlying reality remains that the collapse into 2009 was followed by a plateau of low-level economic activity—no meaningful upturn, no full recovery from or end to the official 2007 recession, no new economic expansion—where the unfolding "new" downturn remains nothing more than a continuation and re-intensification of a downturn that began unofficially in 2006.

PRODUCER PRICE INDEX—PPI (November 2017)

November 2017 Final Demand PPI: Jump to 70-Month High of 3.1% Annual PPI Inflation Reflected Gasoline Price Distortions, Not Surging Economic Activity. Where headline year-to-year PPI Final Demand (PPI-FD) inflation just rose to 70-month high of 3.07% for November 2017 (highest since January 2012), the recent relative strength in annual headline PPI-FD inflation has not reflected an overheating economy, claims to the contrary by some at the Fed who have been looking for reasons to boost interest rates.

The primary, headline inflation issue in these data remains energy-price distortions of the last several years, which have been rigged heavily through the Federal Reserve's interest-rate jawboning and dollar-propping gimmicks, combined with OPEC-supply jawboning, political instabilities in the Middle East and short-terms supply disruptions from Hurricane Harvey. That said, headline November 2017 seasonally-adjusted energy prices rose by 4.63% month-to-month, up year-to-year by 12.37%, dominating the third consecutive, aggregate seasonally-adjusted PPI month-to-month inflation of 0.44%.

Consider, though, that the October 2017 PPI-FD gain of 0.44% reflected seasonally-adjusted monthly energy prices that had been "unchanged" month-to-month, with unadjusted annual change slowing to 7.62%, down from 10.62% in September 2017. Still, the bulk of October's aggregate PPI-FD monthly inflation increase was generated by "rising" margins among gasoline dealers and wholesalers, due to the effects of plunging gasoline prices on existing inventories.

Reversed from those October distortions, soaring gasoline prices in November cut profit margins for gasoline dealers holding lower-cost inventories. Those lowered margins are counted as "deflationary," despite the headline, underlying soaring gasoline prices and implications for the wholesalers having to raise their prices. Such is the formal, regular nonsense seen with the aggregate PPI-FD inflation series, as discussed in the *Services-Side Nonsense Detail* section.

Separate from the conundrums of the dominant services sector definitional issues, the old-fashioned, headline seasonally-adjusted monthly goods inflation in November 2017 was 0.98%, versus 0.27% in October and 0.72% in September, all spiked by rising or falling gasoline prices, again driven by factors other than underlying, broad economic activity. The November aggregate price gain of 0.98%, reflected food prices up by 0.26%, with energy prices up by 4.63%, and "core" inflation (ex-food and energy) up by 0.26%. Before seasonal adjustments, goods inflation gained 0.45% in the month, with food inflation up by 0.34%, energy prices up by 1.67% and "core" inflation up by 0.18%. For the PPI-FD Goods sector, unadjusted annual inflation of 4.17% in November 2017 rose versus 3.23% in October 2017 and 3.32% in September 2017, topping the recent near-term peak of 4.12% in April 2017.

Services-Side Nonsense Detail. The headline monthly PPI Final Demand inflation generally reflects neither real-world activity, nor common experience, except by possible coincidence. As structured, the monthly wholesale inflation rate remains dominated by the services sector, which is of negligible common-experience or theoretical value, as discussed in the following *Bulk of Headline PPI Reporting Is of Little Practical Use* section. It also has proven to be highly unstable in its surveying and related reporting. Consider that the monthly PPI detail is subject to revision five months after its initial reporting.

For the July 2017 PPI revision, released with the November 2017 reporting, the seasonally-adjusted aggregative headline index change was unrevised with a 0.9% monthly gain. A net negative revision of 0.09% (-0.09%) was seen in the level of the July goods index, offset by a net positive revision of 0.09% in the dominant services sector and with the minimally-weighted construction sector inflation index also revising higher by 0.09%. As usual, though, the internal numbers did not add up to provide a consistent picture, particularly in the context of seasonal adjustments. Most frequently data-consistency issues are generated on the dominant services-side of the reporting (again, see *Inflation That Is More Theoretical than Real World*).

Bulk of Headline PPI Reporting Is of Little Practical Use. *[The background text here and in the next subsection is as published previously.]* Beyond the broad issues with general inflation measurement (see *Public Commentary on Inflation Measurement*), indeed the bulk of the PPI is covered by the "services" sector, where inflation is determined largely by shifting profit margins. Discussed in the next subsection, profit-margin inflation estimates generally are handled in a manner counter-intuitive to the more-traditional measurement of inflation in goods and services, otherwise calculated as a measurement of change in prices. Accordingly, the headline detail here increasingly has a limited relationship to real-world activity.

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

Inflation That Is More Theoretical than Real World. Effective with January 2014 reporting, a new Producer Price Index (PPI) replaced what had been the traditional headline monthly measure of wholesale inflation in Finished Goods (see *Commentary No. 591*). In the new headline monthly measure of wholesale Final Demand, Final Demand Goods basically is the old Finished Goods series, albeit expanded.

The new otherwise dominant Final Demand Services sector largely reflects problematic and questionable surveying of intermediate or quasi-wholesale profit margins in the services area. To the extent that profit margins shrink in the services sector, one could argue that the resulting lowered estimation of inflation actually is a precursor to higher inflation, as firms subsequently would move to raise prices, in an effort to regain more-normal margins. In like manner, in the circumstance of "increased" margins—due to the lower cost of petroleum-related products not being passed along immediately to customers—competitive pressures to lower margins would tend to be reflected eventually in reduced retail prices (CPI). The oil-price versus margin gimmick works both way. In times of rapidly rising oil prices, it mutes the increase in Final Demand inflation, in times of rapidly declining oil prices; it tends to mute the decline in Final Demand inflation.

The current PPI series remains an interesting concept, but it appears limited as to its aggregate predictive ability versus general consumer inflation. Further, there is not enough history available on the new series (just eight years of post-2008-panic data) to establish any meaningful relationship to general inflation or other economic or financial series.

November 2017 Headline PPI Detail. The Bureau of Labor Statistics (BLS) reported December 12th, that the seasonally-adjusted, month-to-month, headline Producer Price Index Final-Demand (PPI-FD) inflation for November 2017 rose by 0.44% for the third-straight month, with both October and September up by 0.44%, versus a gain of 0.18% in August and an unrevised seasonally-adjusted 0.9% gain in the five-month revision to July. Unadjusted, however, the monthly gain in July revised to 0.09% from 0.00%.

On a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year PPI-FD inflation in November 2017 jumped to a 70-month high (since January 2012) of 3.07%, versus annual gains of 2.79% in October 2017, 2.62% in September 2017, 2.35% in August 2017, and a five-month-revised 1.99% [previously 1.90%] in July 2017.

For the three major subcategories of the November 2017 PPI-FD [0.44% monthly, 3.07% annual inflation], headline monthly Goods inflation rose by an adjusted 0.98% [4.17% annual, unadjusted], Services "inflation" (profit margins) rose by 0.17% [2.41% annual] and Construction inflation decreased by 0.17%, (-0.17%) [up by 2.97% annual].

Final Demand Goods (weighted at 33.81% of the Aggregate Index). Running somewhat in parallel with the old Finished Goods PPI series, headline month-to-month Final Demand Goods inflation in November 2017 rose by 0.98%, following gains of 0.27% in October and 0.72% in September. There was positive impact on the aggregate goods headline reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, November inflation gained 0.45% month-to-month.

Unadjusted, year-to-year goods inflation in November 2017 showed an annual gain of 4.17%, following gains of 3.23% in October 2017 and 3.32%.

Headline seasonally-adjusted monthly changes by major components of the November 2017 Final Demand Goods:

- "Foods" inflation (weighted at 5.40% of the total index) increased by 0.26% in November 2017, having gained 0.52% in October and having been "unchanged" at 0.00% in September. Seasonal adjustments were negative for the November headline change, which gained by 0.34% unadjusted. Unadjusted and year-to-year, annual November 2017 foods inflation rose by 3.54%, having gained 2.64% in October 2017 and by 1.22% in September 2017.
- "Energy" inflation (weighted at 5.50% of the total index) jumped by 4.63% month-to-month in November 2017, having been "unchanged" at 0.00% October and having gained by 3.36% in September. Seasonal adjustments were positive in November, with unadjusted energy inflation up

by 1.67% for the month. Unadjusted and year-to-year, November 2017 energy prices gained 12.15%, versus annual gains of 7.62% in October 2017 and 10.62% in September 2017.

- "Less foods and energy" ("Core" goods) monthly inflation (weighted at 22.91% of the total index) gained by 0.26% in November 2017 for the second month, up by 0.26% in October and 0.27% in September. Seasonal adjustments were positive for monthly core inflation, with unadjusted monthly November inflation up by 0.18%. Unadjusted and year-to-year, November 2017 "core" inflation rose to 2.43%, versus annual gains of 2.34% in October 2017 and 2.17% in September 2017.

Final Demand Services (weighted at 64.12% of the Aggregate Index). Headline Final Demand Services inflation increased by 0.17% in November 2017, following monthly gains of 0.53% in October and 0.35% in September. The overall seasonal-adjustment impact on headline services inflation was positive, with an unadjusted monthly decline of 0.09% (-0.09%). Year-to-year, unadjusted November 2017 services inflation was 2.41% for the second month, versus 2.41% in October 2017 and 2.06% in September 2017.

The headline monthly changes by major component for November 2017 Final Demand Services inflation:

- "Services less trade, transportation and warehousing" inflation, or the "Other" category (weighted at 38.87% of the total index) monthly inflation here rose by 0.44% in November 2017, following monthly gains of 0.09% in both October and September. Seasonal-adjustment impact on the adjusted November detail was positive, where the unadjusted monthly reading was a gain of 0.18%, for a second month. Unadjusted and year-to-year, November 2017 "other" services inflation was up by 2.25%, versus 1.98% in October 2017 and 1.98% in September 2017.
- "Transportation and warehousing" inflation (weighted at 4.99% of the total index) rose by 0.60% in November 2017, versus 0.77% in October and 0.96% in September. Seasonal adjustments were neutral for the headline November reading, versus an unadjusted monthly also of 0.60%. Unadjusted and year-to-year, November 2017 transportation inflation rose by 3.52%, versus 3.36% in October 2017 and 3.31% in September 2017.
- "Trade" inflation (weighted at 20.26% of the total index) declined by 0.34% (-0.34%) month-to-month in November 2017, have gained by 1.13% in October and 0.79% in September. Seasonal adjustments had a positive negative impact, where the unadjusted monthly change was down by 0.77% (-0.77%). Unadjusted and year-to-year, November 2017 trade inflation softened to an annual gain of 2.46%, versus 2.99% in October 2017 but up from 2.21% in September 2017.

Final Demand Construction (weighted at 2.07% of the Aggregate Index). Although a fully self-contained subsection of the Final Demand PPI, Final Demand Construction inflation receives no formal headline coverage. Month-to-month construction inflation declined by 0.17% (-0.17%), following gains of 0.51% in October and 0.09% in September. The impact of seasonal factors on the October reading was neutral, as usual, where the unadjusted monthly decline also was 0.17% (-0.17%). The issues here are a combination of monthly headline cost changes along with a quarterly estimate of contractor profit-margin changes that have little connection to real-world activity. The latter circumstance was addressed in *Commentary No. 829*.

On an unadjusted basis, year-to-year construction inflation softened to 2.97% in November 2017, versus 3.14% in October 2017 and 3.43% in September 2017. The PPI annual change here recently had moved closer to the estimates of private surveying and other government estimates (GDP deflators), which usually show much higher construction-related inflation than the PPI. The headline annual PPI inflation, however, still is shy by an order of magnitude of at least a hundred basis points from the private and other surveying. Annual inflation in those measures generally appears to be on the rise. Discussed in *Commentary No. 829*, ShadowStats has constructed a Composite Construction Deflator (CCD) now used by ShadowStats in deflating the Census Bureau's monthly estimates of Construction Spending Put in Place in the United States (see prior *Commentary No. 924*).

PPI-Inflation Impact on Pending Reporting of November 2017 New Orders for Durable Goods. As to the upcoming reporting of November 2017 New Orders for Durable Goods, monthly inflation (reported only on a not-seasonally-adjusted basis) for new orders for manufactured durable goods in November 2017 rose by 0.12% month-to-month, having gained 0.41% in October and 0.06% in September. Year-to-year annual inflation rose to 1.92% in November 2017, versus 1.86% in October 2017 and 1.74% in September 2017. November 2017 durable goods orders (both nominal and real) will be reported and calculable on December 22nd, with coverage in *Commentary No. 928* of that date.

Massive PPI Overhaul Due for Publication in February 2018. Announced initially the August 10th *Press Release*, all PPI weightings will undergo significant revisions (updating current weightings, based on 2007, to weightings based on 2012 detail.). Final Demand Producer Price Index and its key component indices such as Final Demand Goods and Final Demand Services only go back to November 2009. Current starting-month index levels of 100.0 will be maintained at 100.0.

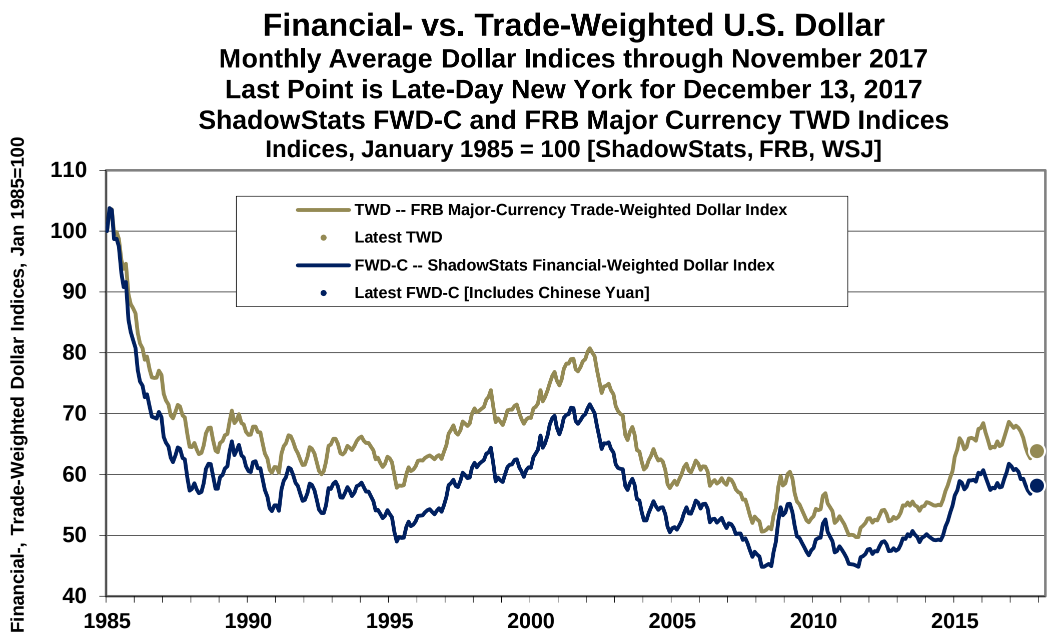
[The* Hyperinflation Watch *begins on the next page.]

HYPERINFLATION WATCH

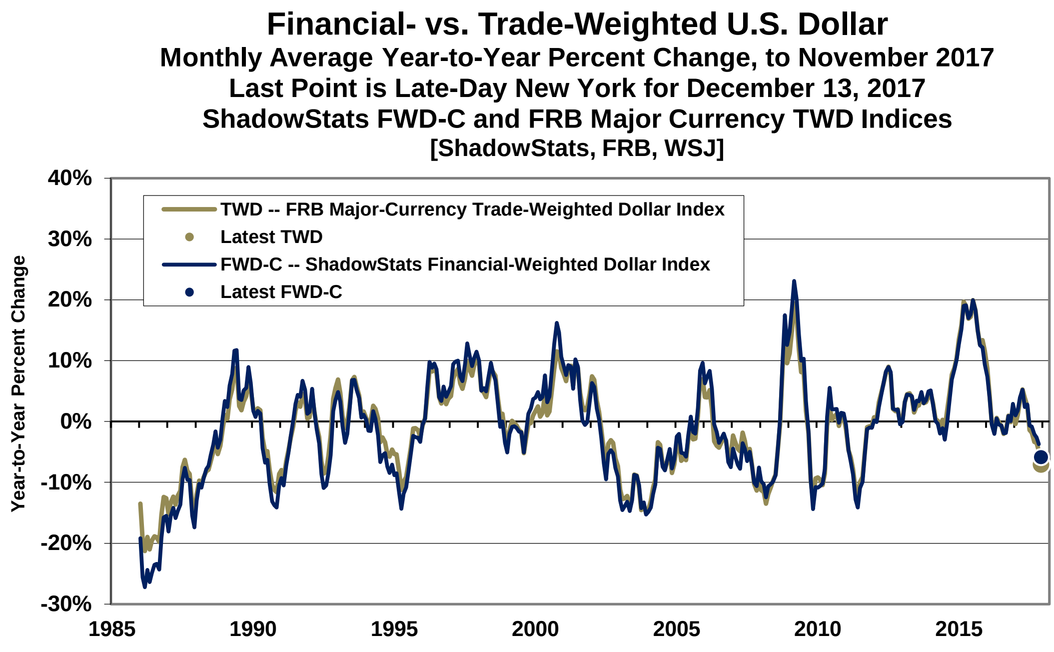
FOMC AND U.S. DOLLAR

Federal Reserve Still is Unable to Extricate Itself from the Panic of 2008. The *Opening Comments* largely provided the background text to this *Hyperinflation Watch*. Where the U.S. dollar declined and gold rallied with today's Fed tightening, that likely will reverse, but not for long. Further details will follow in the next *Commentary No. 925*. The regular gold and dollar graphs follow. Note the continued sharp annual decline in the trade-weighted dollar.

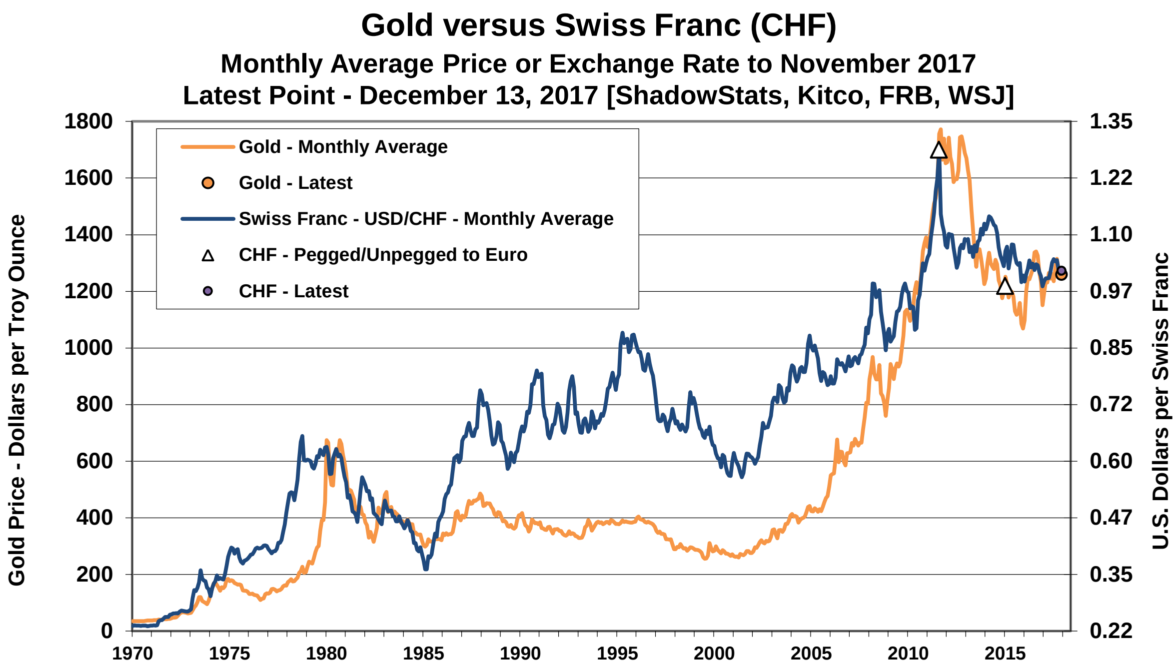
Graph HW-1: Financial- versus Trade-Weighted U.S. Dollar



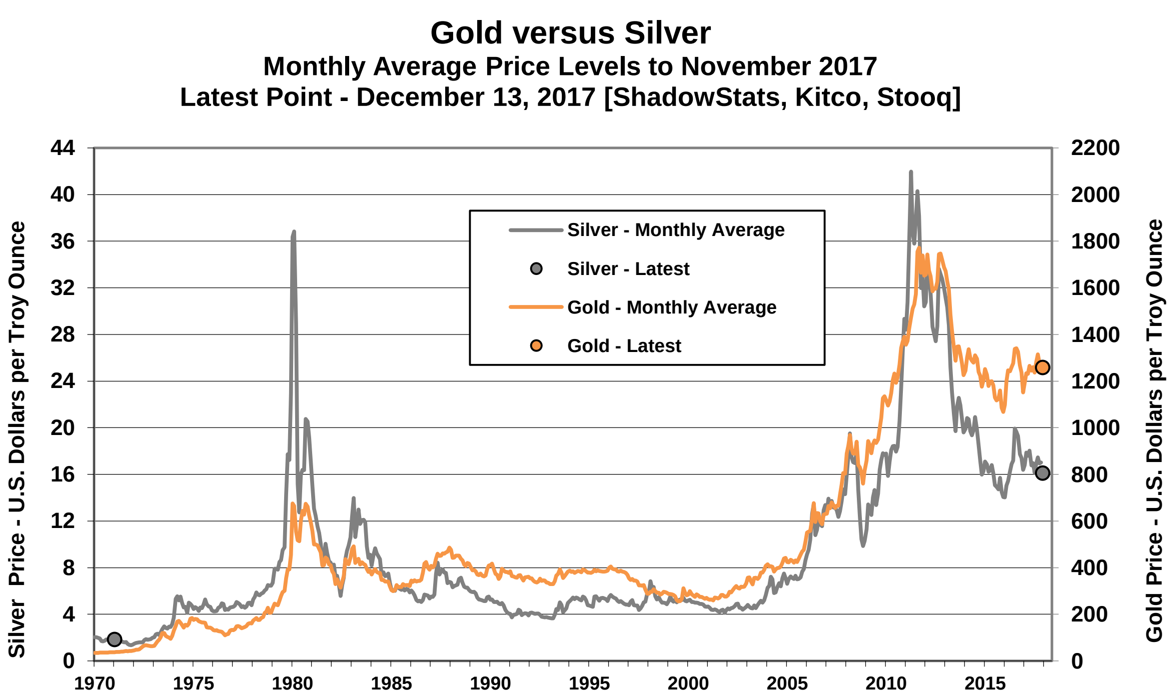
Graph HW-2: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar



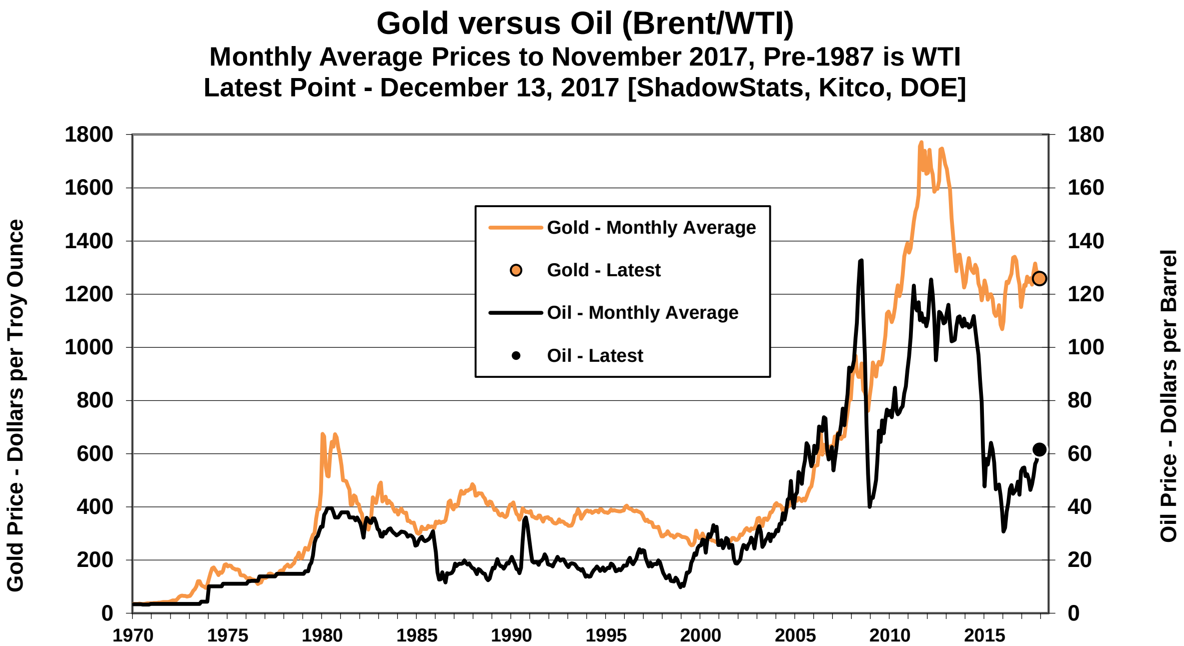
Graph HW-4: Gold versus the Swiss Franc



Graph HW-5: Gold versus Silver



Graph HW-6: Gold versus Oil



[The **Consumer Liquidity Watch** *begins on the next page.]*

CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM. *[Updated for Household Sector, Real Credit Market Debt Outstanding (Third-Quarter 2017) and Real Average Weekly Earnings (November 2017). These factors showed continued lack of recovery in real consumer credit, and deepening contractions in monthly and quarterly real average weekly earnings.]*

Consumer Liquidity Stresses Continue to Constrain Broad Economic Activity. The U.S. consumer faces continuing financial stress, increasingly reflected in renewed softening of fundamental headline economic activity, including Payroll-Employment, Real Retail Sales, Housing and the impacted Manufacturing/Production sector, net of what have been mixed, but significant, near-term hurricane distortions. Those distortions broadly should have passed from headline economic reporting by January 2018 headline detail. Those effects have been and will continue to be discussed in separate analyses of the relevant series.

Where those series have faced near-term, disaster-triggered reporting disruptions, liquidity stresses nonetheless intensified, at least temporarily, in hurricane-hit regions of the United States, where, for example, related September and October 2017 employment/ unemployment details were heavily disrupted/distorted (see *Commentary No. 919-B*).

Liquidity Issues Limit Economic Activity. Severe and persistent constraints on consumer liquidity of the last decade or so drove economic activity into collapse through 2009, and those conditions have prevented meaningful or sustainable economic rebound, recovery or ongoing growth since. The limited level of, and growth in, sustainable real income, and the inability and/or unwillingness of the consumer to take on new debt have remained at the root of the liquidity crisis and ongoing economic woes.

These same pocket-book issues contributed to the anti-incumbent electoral pressures in the 2016 presidential race. The post-election environment showed a near-term surge in both the consumer confidence and sentiment measures to levels generally not seen since before the formal onset of the recession in 2002, let alone 2007. Yet, underlying liquidity conditions, economic reality and lack of positive actions out of the government to turn the economy meaningfully, all have continued to remain shy of consumer hopes. Mirroring the economic hype in the popular press, consumer optimism had rallied strongly in recent months, although monthly changes have begun to falter anew. The “strong” reading in November 2017 Consumer Confidence was the highest level seen since December 2000, when the confidence number was collapsing into the onset of the 2001 recession, still the early-December 2017 reading of Consumer Sentiment has continued to back off its recent multi-year peak.

Including the various consumer income stresses discussed in *Special Commentary No. 888*, broad, underlying consumer-liquidity fundamentals simply have not supported, and still do not support a turnaround in general economic activity—a post “Great Recession” expansion—and broadly are consistent with a "renewed" downturn in that non-recovered economic activity. Indeed, never truly recovering post-Panic of 2008, limited growth in household income and credit have eviscerated and continue to impair broad, domestic U.S. business activity, which is driven by the relative financial health and liquidity of consumers. These underlying liquidity conditions and reality—particularly income and credit—remain well shy of consumer hopes and needs.

The combined issues here have driven the housing-market collapse and ongoing, long-term stagnation in consumer-related real estate sales and construction activity, and have constrained both nominal and real retail sales. Related, personal-consumption-expenditure and residential-construction categories accounted for 73% of the headline real, third-quarter 2017 U.S. GDP.

With the better-quality economic indicators and underlying economic reality never having recovered fully from the collapse into 2009, consumers increasingly should pull back on consumption in the months ahead. Underlying reality is evident in more-meaningful economic indicators—not the GDP—irrespective of the transient, gimmicked boosts to, and current headline slowing in, that most worthless of economic series, discussed most in the *Executive Summary* of *Commentary No. 923*.

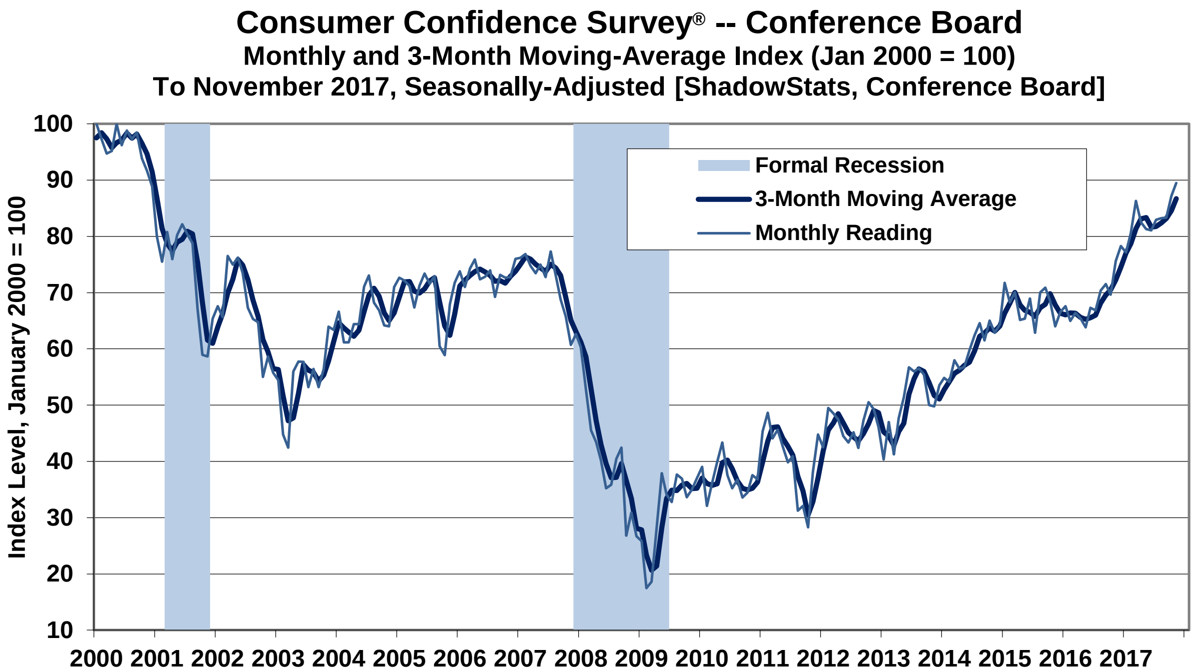
Consumer Optimism: November Consumer Confidence and Early-December Sentiment Continue Mixed in Direction; Confidence Is at Highest Level Since It Collapsed into the 2001 Recession but Sentiment Is Pulling Back. This detail reflects the November 2017 readings of The Conference Board's Consumer-Confidence Index® (Confidence) as of November 28th and the early-December reading of the University of Michigan's Consumer Sentiment Index (Sentiment) as of December 8th. Reflected in *Graphs CLW-1* and *CLW-2*, both Confidence and Sentiment jumped sharply to multi-year highs in October, but the November Sentiment reading pulled back sharply and continued to do so in early-December, retrenching from its October jump. November Confidence jumped to a new 17-year high; the strongest reading since December 2000, as that series was plummeting into the 2001 recession. That December 2000 reading still was down by 10.5% (-10.5%) from the series high in May of 2000.

A year or so ago September 2016 Confidence and Sentiment jumped and then plunged in October 2016, likely reflecting concerns as to the direction of the presidential race. Post-election, both measures rallied sharply, reflecting surges in consumer optimism into early-2017. Both series then topped and pulled back, with mixed numbers into August and September 2017, but with the October 2017 Sentiment measure showing an large jump, purportedly because consumers were willing to accept diminished prospects for their living standards (see *Commentary No. 916*)? Nonetheless, the Sentiment measure retrenched in November and early-December. The Conference Board blamed hurricane impact in Texas and Florida for its downturn in September 2017 Confidence, but those numbers exploded into October and November 2017.

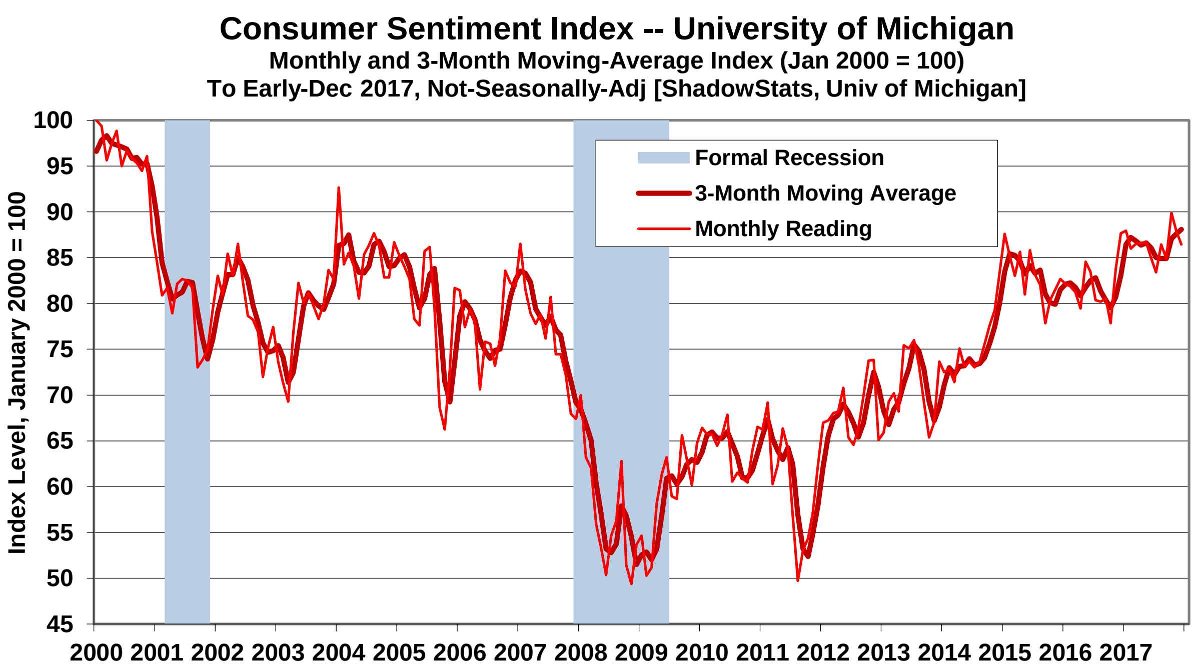
For both the Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph CLW-1*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph CLW-2*), the three-month moving averages also are above pre-2007 recession highs, with Confidence hitting levels last seen falling into the 2001 recession, yet the still-high moving averages also had begun to falter in September 2017, before the unusual October and November surges.

Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CLW-1* to *CLW-3* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index® is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

Graph CLW-1: Consumer Confidence (2000 to 2017)



Graph CLW-2: Consumer Sentiment (2000 to 2017)



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

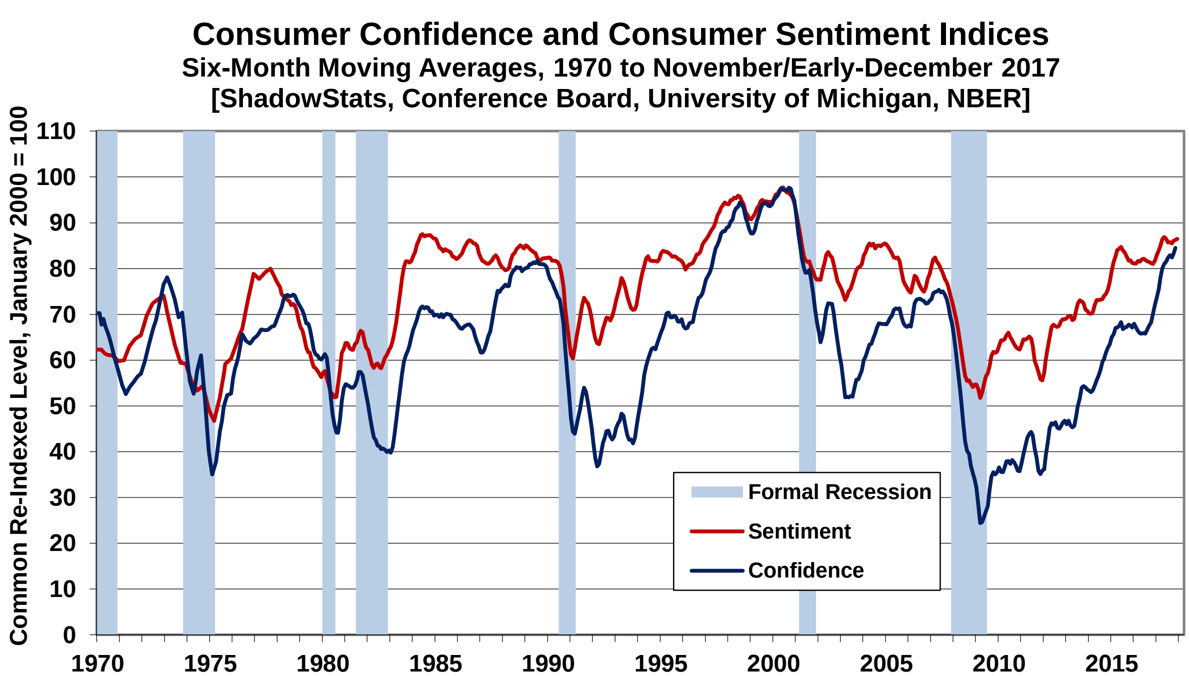
Recent headlines have been highly positive on the economy, reflecting short-lived hurricane distortions particularly on unemployment (not payroll employment), retail sales and industrial production. Headline financial and economic reporting in the next month or two should turn increasingly-negative and unstable.

With near-term headline financial and economic reporting increasingly suggestive of a renewed and intensifying downturn likely in the next couple of months, successive negative hits to both the confidence and sentiment readings are increasingly likely in the near future, again, despite the artificial, headline-spiked October and November 2017 readings. Again, they likely were built upon some temporary or faux, hurricane-boosted data, which already have begun to unwind (see *Commentary No. 922* and *Commentary No. 923*).

Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for second-and third-quarter 2015 and for third-quarter 2016 and into third-quarter 2017. Beyond having happy feelings about the future, consumers still need actual income, cash-in-hand or credit in order to increase their spending.

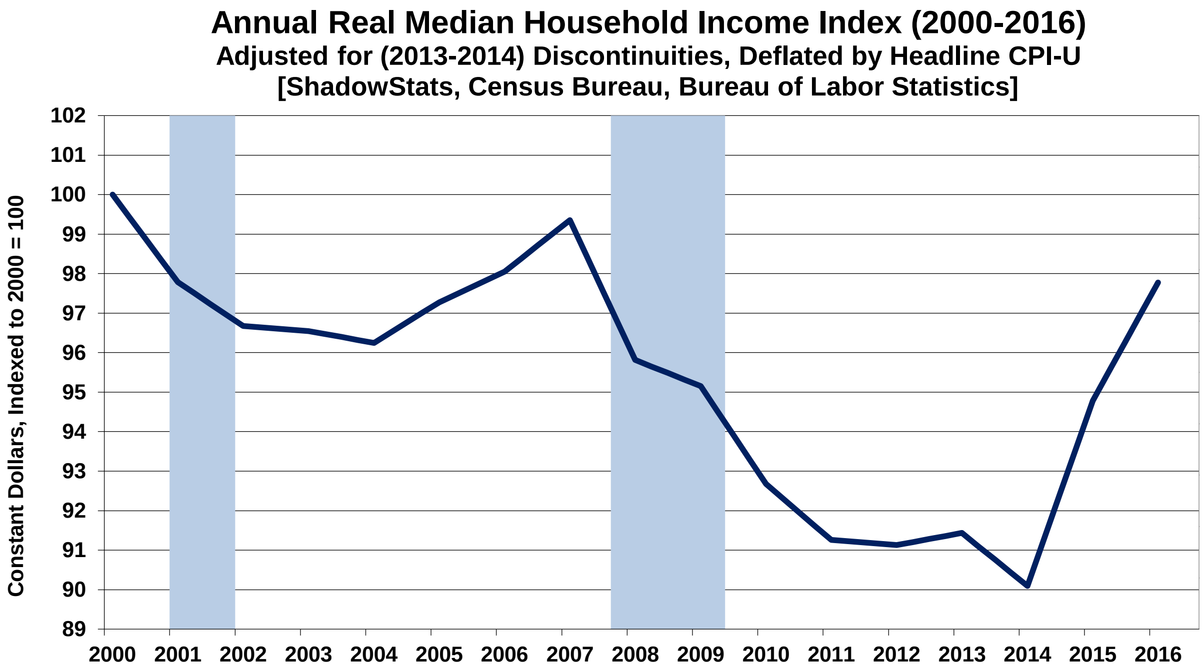
Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CLW-3*—plotted for the last 47 years—the latest readings of Confidence and Sentiment recently have recovered levels seen in periods of normal, positive economic activity of the last four decades, with their six-month moving averages at levels last seen going into the 2001 recession, although they appear to be topping out.

Graph CLW-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)

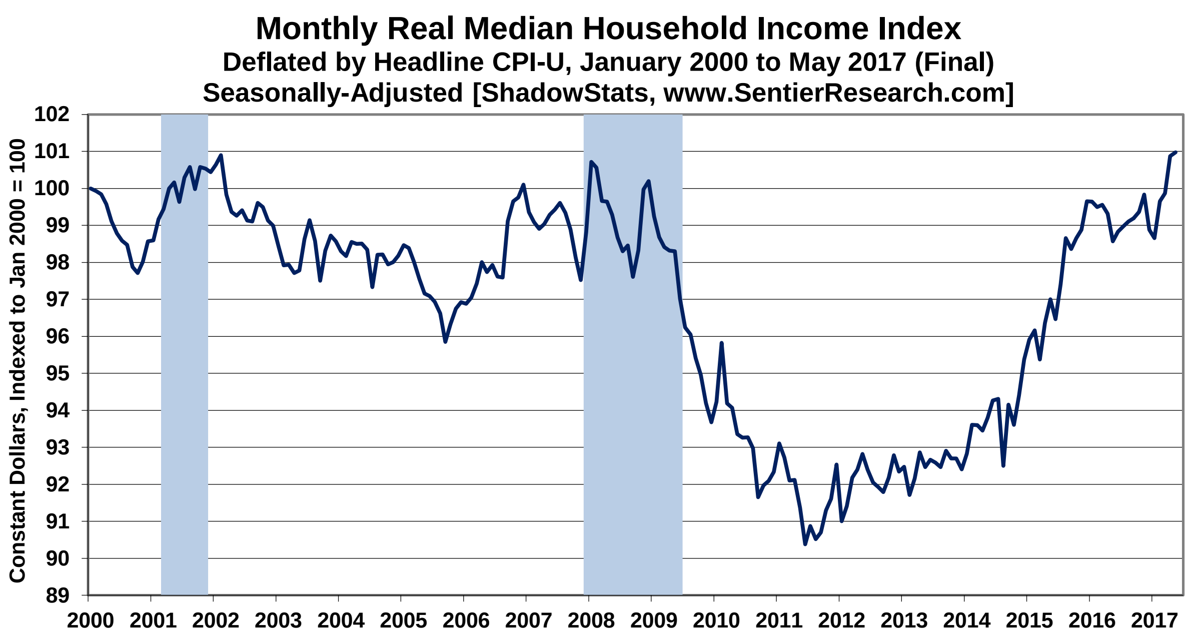


2016 Annual Real Median Household Income Still Was Below Its 2007 Pre-Recession High, Below Activity in the Late-1990s, About Even with the Mid-1970s. The measure of real monthly median household income, which has been provided by www.SentierResearch.com, generally can be considered as a monthly version of the annual detail shown in *Graph CLW-4*, based on the annual detail recently released by the Census Bureau and as discussed the *Opening Comments* of *Commentary No. 909*.

Graph CLW-4: Annual Real Median U.S. Household Income (1967 to 2016)



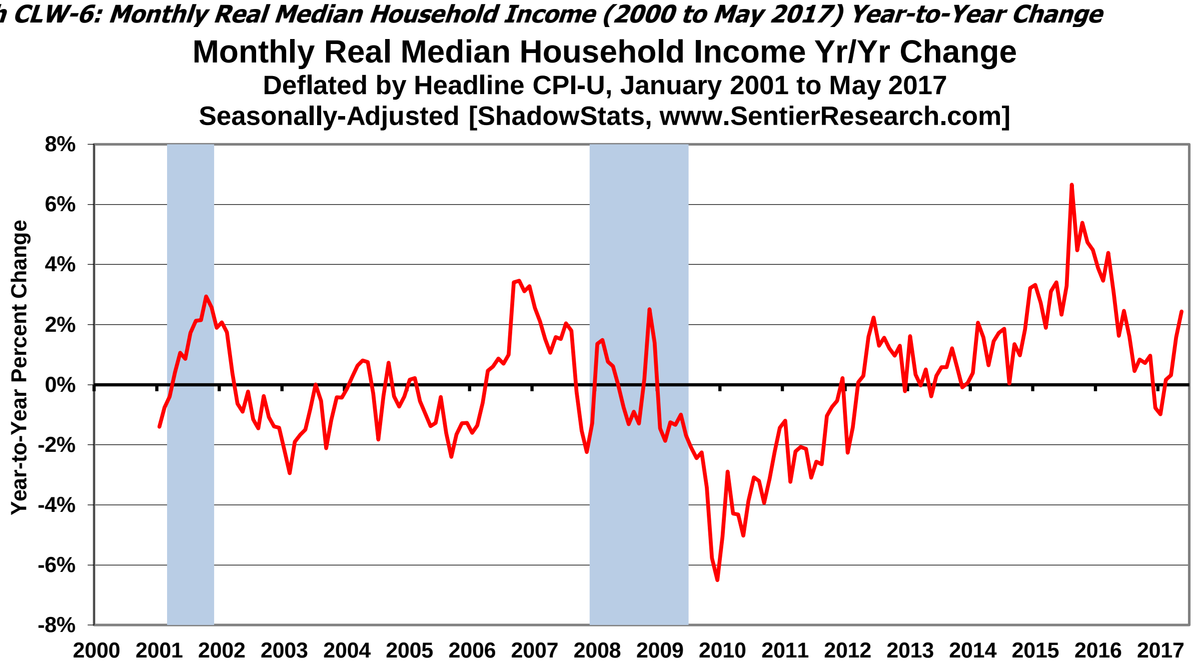
Graph CLW-5: Monthly Real Median Household Income (2000 to May 2017) Index, January 2000 = 100



The 3.16% headline gain in 2016 real annual median household income for 2016 left the level of income not only below that seen at the purported pre-recession peak of 2007, but also below levels seen in the late-1990s, and minimally above activity see in the mid-1970s (see *Graph OC-1* in *No. 909*). The Sentier details, as far as they go, from January 2000 to May 2017, suggested annual real median income was on track for further increase in 2017, having also indicated the 2015 and 2016 annual increases.

Last Monthly Estimate Showed Stagnating Monthly Real Growth. As last reported by Sentier Research, May 2017 Real Median Household Income was statistically unchanged, despite a boost from falling gasoline prices. Discussed in *General Commentary No. 894*, and in the contexts of then-faltering gains in post-election consumer optimism, and inflation-adjusted activity boosted by declining headline Consumer Price Index (CPI-U) inflation (weakened by seasonally-adjusted gasoline price declines), May 2017 Real Median Monthly Household Income was "statistically unchanged" (a statistically-insignificant monthly gain of 0.10%). That followed a statistically-significant monthly gain of 1.00% in April 2017. Shown in *Graph CLW-4*, such enabled May 2017 real monthly median household income to hold a level regained in April and otherwise last seen in February 2002. Year-to-year real median household income rose to 2.44% in May 2017, the highest level since June 2016, following an annual gain of 1.57% in April 2017 (see *Graph CLW-5*). The May detail, however, may have been the final reporting of the monthly series (see the *Special Note* that follows).

Graph CLW-6: Monthly Real Median Household Income (2000 to May 2017) Year-to-Year Change



Where real monthly median income plunged into the headline trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new lows, hitting bottom in 2011. The income series then held in low-level stagnation, until collapsing gasoline prices and the resulting negative CPI-U inflation drove a post-2014 uptrend in the inflation-adjusted monthly income index. The index approached pre-recession levels in the December 2015 reporting, but it remained minimally below the pre-recession highs for both the formal 2007 and 2001 recessions until recent months. Real median household income had the potential to resume turning down anew, as the headline pace of monthly consumer inflation picked up anew, with the August 2017 CPI.

Nonetheless, the most-recent recent "rebound" reported in the series still left consumers financially strapped. Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash largely was used to help pay down unsustainable debt or other obligations, not to fuel new consumption. Except for mixed gyrations in first-half 2017, the effects of changing gasoline prices in the headline CPI-U generally had reversed, pushing headline consumer inflation higher and beginning to push real income lower.

Differences in the Monthly versus Annual Median Household Income. The general pattern of relative monthly historical weakness has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in *Graph CLW-4,* with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 and 2016 annual number still holding below the 2007 pre-recession high. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of *Commentary No. 909*) the monthly and annual series had remained broadly consistent, although based on separate questions within the Consumer Population Series (CPS), as conducted by the Census Bureau.

Where Sentier used monthly questions surveying current annual household income, the headline annual Census Bureau detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income. The Median Household Income surveying results are broadly consistent with Real Average Weekly Earnings.

***Special Note*:** Accompanying the release of the May 2017 data by Sentier Research was this Notice of Final Report:

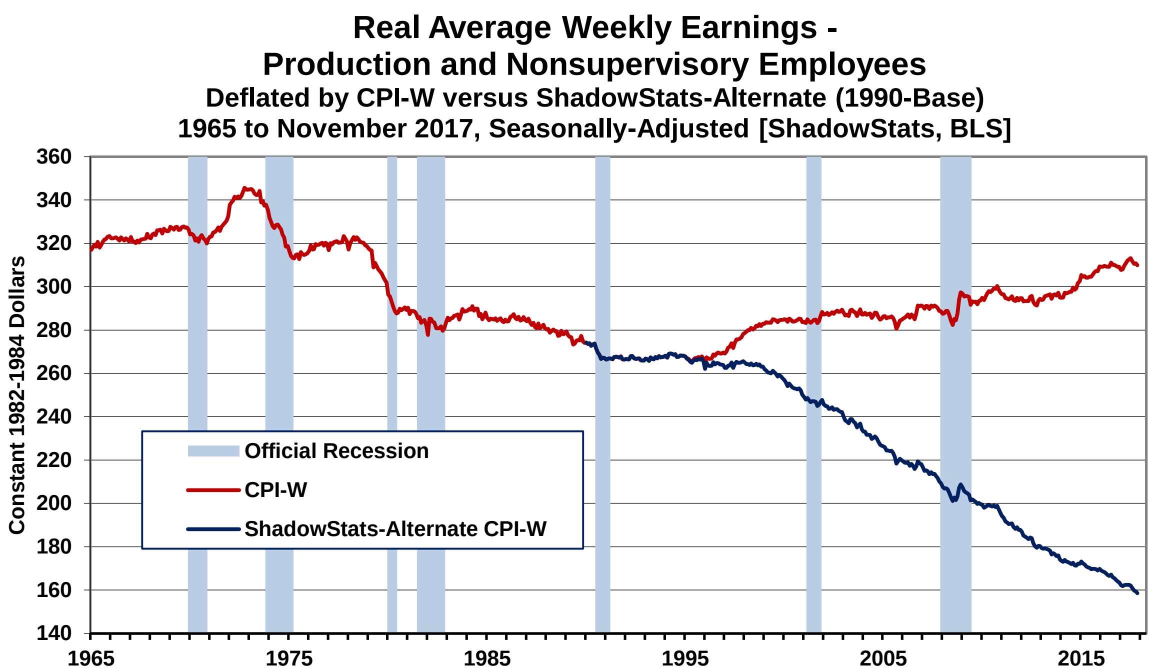
> Dear Friends, This will be our final report in the monthly series of median household income. We can no longer afford to provide these estimates given our current level of resources. We believe, as we hope you do, that these estimates provided an important new dimension regarding the economic situation of American households as we slowly climbed out of the Great Recession. The story continues but we must move on. Our hope is that someone will be able to continue this work. Should you or someone you know be interested please contact us. Thanks to all of you for your kind support.. John and Gordon

ShadowStats hopes a circumstance will unfold that enables continued reporting of this extraordinarily valuable and timely indicator of consumer liquidity. Gordon Green and John Coder, the authors of the monthly report, both are former senior officials at the U.S. Census Bureau and have a unique understanding of the underlying monthly data. The Census Bureau publishes a broadly-similar series on an annual basis, but with an extraordinary time lag. The 2016 Census annual detail is due for release and publication in September 2017. Again, see *Commentary No. 833* for the 2015 detail published in 2016.

Real Average Weekly Earnings—November 2007—Monthly Real Earnings Continued to Contract, Fourth-Quarter on Solid Track for Second Consecutive Quarterly Contraction. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion on in today's *Reporting Detail*, the regularly-volatile, real average weekly earnings declined month-to-month in November 2017, the third month down in the last four. With a revised, deepened quarterly contraction for third-quarter 2017 activity, the quarterly contraction unfolding for fourth-quarter 2017 also deepened, with two out of three months in place.

Graph CLW-7 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.

Graph CLW-7: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date

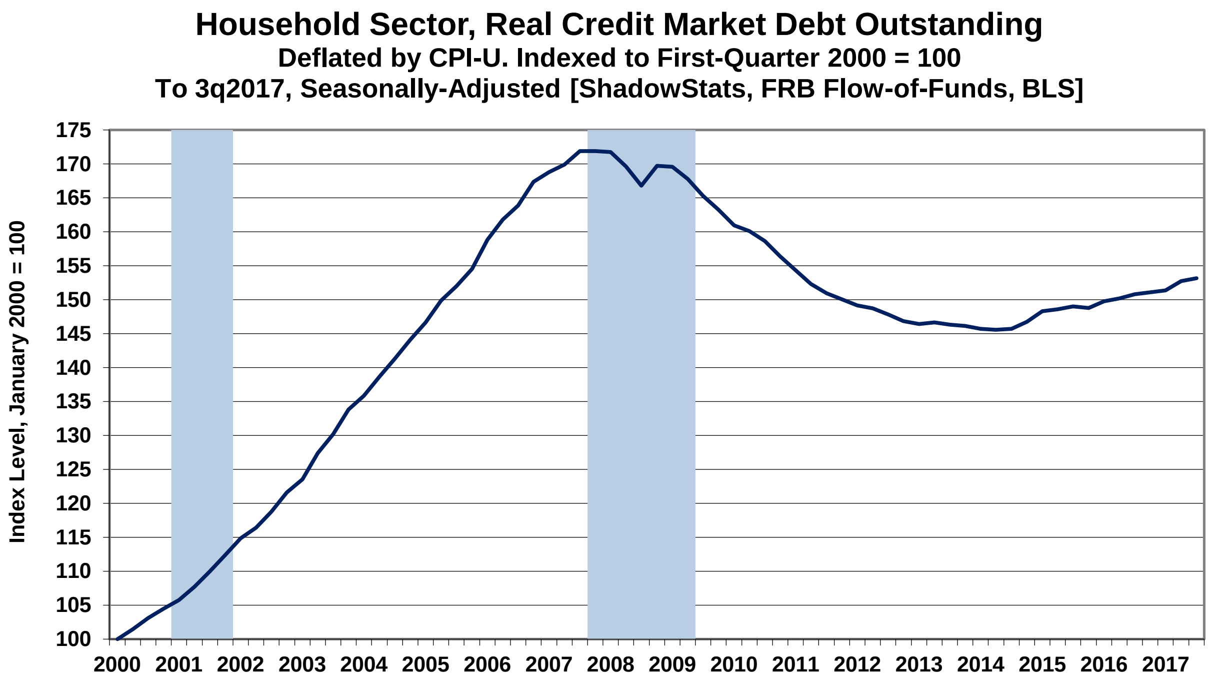


Consumer Credit: Lack of Meaningful Real Consumer Credit Growth Remains an Economic Constraint. The final four graphs on consumer conditions address consumer borrowing. Where debt expansion can help make up for a shortfall in income growth, adequate expansion of consumer debt, which would help fuel growth in personal consumption, has been lacking.

Quarterly Series. Consider *Graph CLW-8* of *Household Sector, Real Credit Market Debt Outstanding*. The level of real household debt declined in the period following the Panic of 2008, reflecting loan defaults and reduced banking lending, and it has not recovered fully, based on the Federal Reserve's flow-of-funds accounting through third-quarter 2017, released on December 7th. Household Sector, Real Credit Market Debt Outstanding in third-quarter 2017 still was down by 10.9% (-10.9%) from its pre-recession peak of third-quarter 2007. That was against a second-quarter 2017 decline of 11.2% (-11.2%). The flattened visual uptick at the latest point in *Graph CLW-8* reflected a slowing in real year-to-year change from 1.70% in second-quarter 2017, to 1.55% in third-quarter 2017.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. The slight upturn seen in the series through 2015 and into 2016 was due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system through second-quarter 2016 and intermittently into second-quarter 2017. Current activity also has reflected continuing relative strength from student loans, as shown in the *Graphs CLW-9* to *CLW-11*.

Graph CLW-8: Household Sector, Real Credit Market Debt Outstanding (2000 through Third-Quarter 2017)

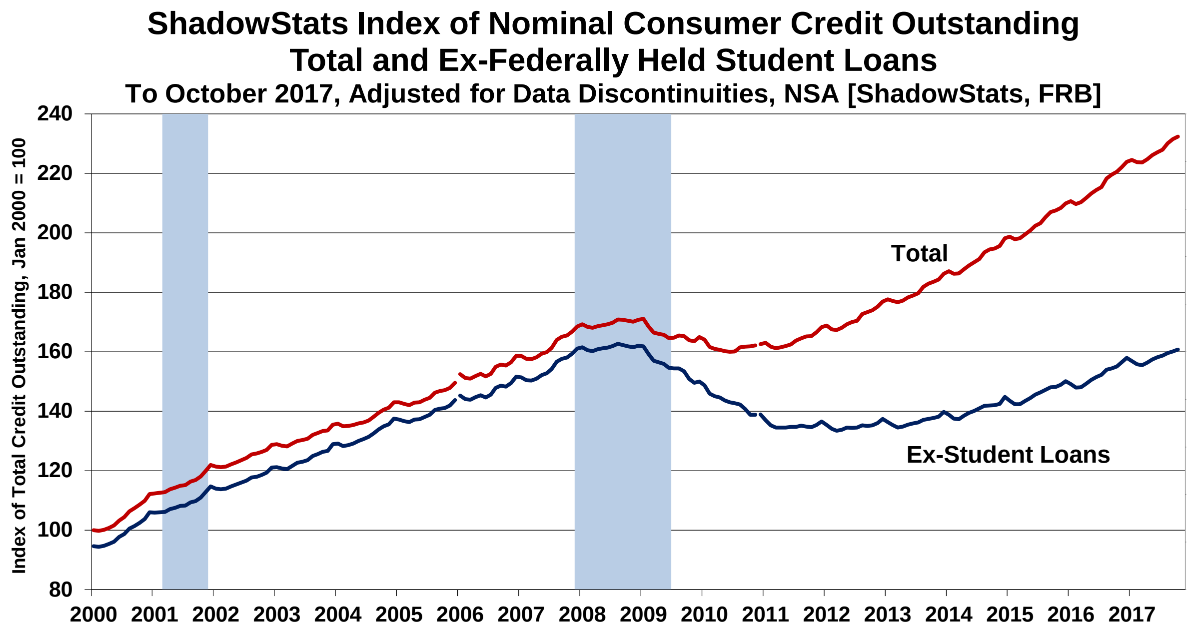


Monthly Series. The ShadowStats analysis usually focuses on the particular current and continuing weakness in monthly levels of consumer credit, net of what has been rapidly expanding government-sponsored student loans. Where detail on that series is only available not-seasonally-adjusted, the following three graphs are so plotted.

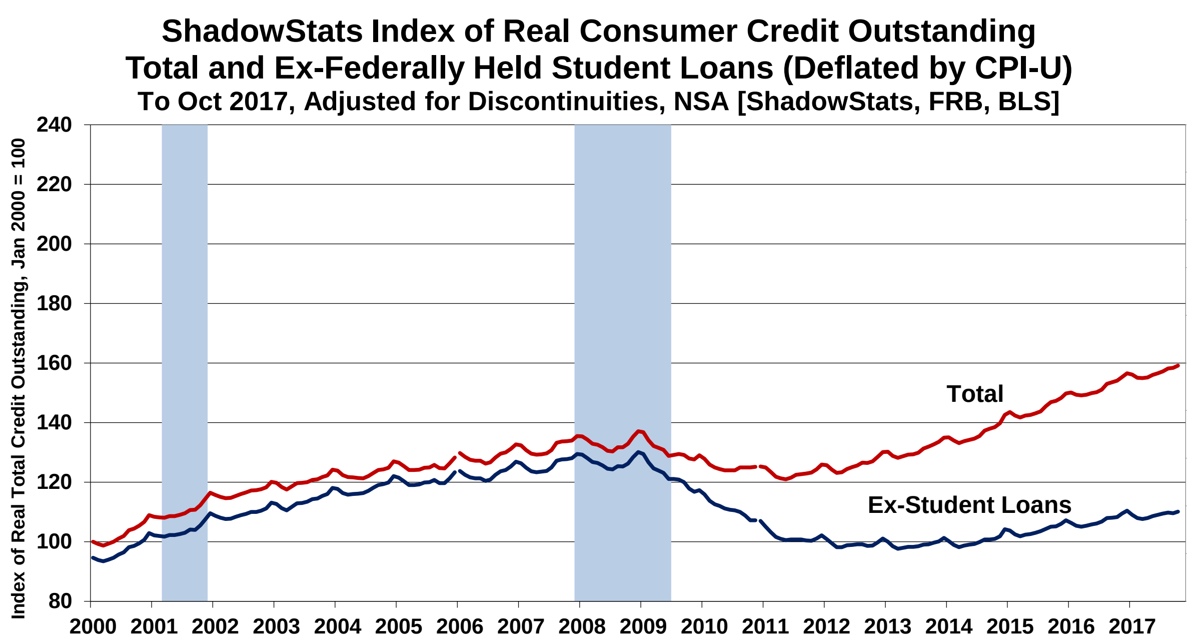
Shown through the October 2017 reading (released December 7th), *Graph CLW-9* of monthly Consumer Credit Outstanding is a subcomponent of the preceding *Graph CLW-8* on real Household Sector debt. Where *Graph CLW-9* reflects the nominal reporting, real or inflation-adjusted activity for monthly Consumer Credit Outstanding is shown in terms of both level (Graph CLW-10) and year-to-year change (*Graph CLW-11*).

Post-2008 Panic, growth in outstanding consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption or housing growth. Although in slow uptrend, the nominal level of Consumer Credit Outstanding (ex-student loans) has not recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis, with the pattern of monthly levels during one year reflecting some regular, unadjusted seasonal dips or jumps.

Graph CLW-9: Nominal Consumer Credit Outstanding (2000 to 2017)



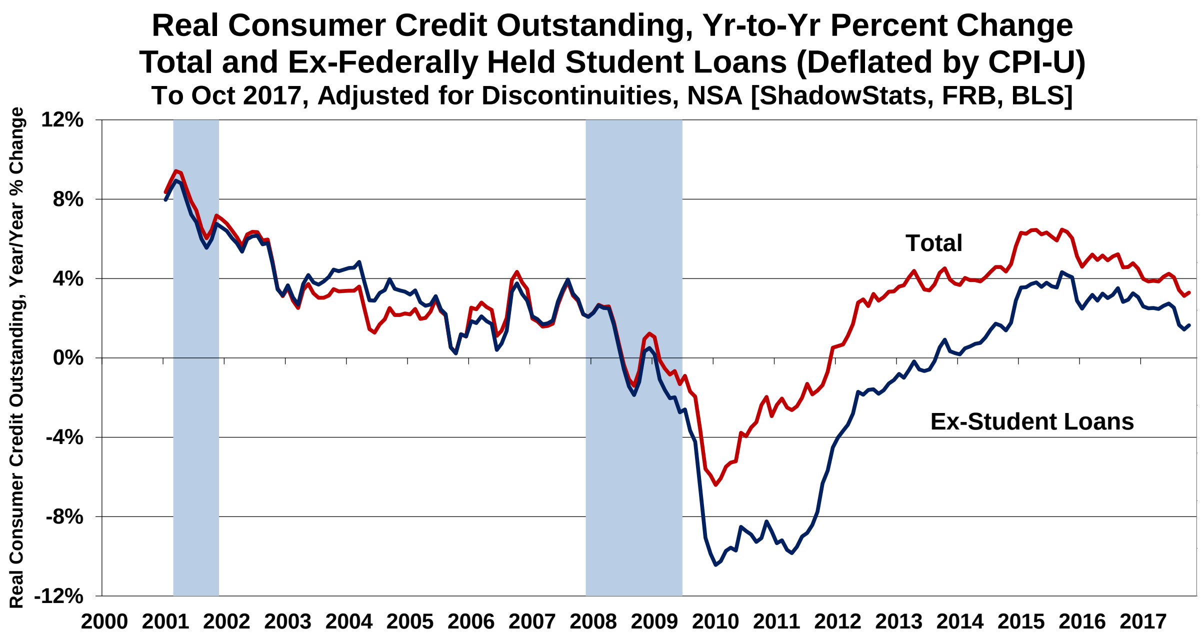
Graph CLW-10: Real Consumer Credit Outstanding (2000 to 2017)



Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Although the recent monthly upside move in the not-seasonally-adjusted consumer credit reflected a seasonal pattern, the pace of year-to-year growth has continued to slow sharply, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in

October 2017 was down from its December 2007 pre-recession peak by 15.0% (-15.0%) [that previously had been down by 12.3% (-12.3%) in June 2017, before a recent downside revision to the last five years of activity]. Year-to-year real growth shown in *Graph CLW-11* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

Graph CLW-11: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)



______

WEEK, MONTH AND YEAR AHEAD

Financial-Market Instabilities and Turmoil Remain Increasingly Likely in the Near Future; Along with Continued Deterioration of Domestic and Global Economic and Political Circumstances. Irrespective of the FOMC's rate hike and continued tightening today (December 13th), as discussed in the *Opening Comments* and *Hyperinflation Watch* (page 22), the economy is not recovering or booming. Allowing for the hurricane disruptions and recovery from same, most series should be back to normal, reflecting "unexpected" downtrending economic activity, by the time of headline reporting for January or February 2018 activity. Such negative economic "surprises" increasingly should shock the markets and the U.S. dollar on the downside. As the reported economic downturn intensifies, the FOMC most likely will be forced into an "unexpected" policy retrenchment, moving back towards quantitative easing.

In such circumstances, the U.S. dollar and financial markets remain at extraordinarily-high risk of panicked declines, increasingly likely in the very near term.

Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving the purchasing power of one's U.S. dollar assets, in the context of liquidity and portability during times such as discussed in today's *Opening Comments* and *Hyperinflation Watch*, which otherwise speak for themselves. Brief references to other recent *Hyperinflation Watches* are provided here.

Following this note, other than for the *Pending Releases* paragraphs and updated links, language changes in this section from the prior *Commentary No. 924* are minimal. Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise. *Best wishes – John Williams*

***Recent* Hyperinflation Watch *and* Special Comments.** Previous background to the markets and potential near-term FOMC activity have been reviewed recently in the *Hyperinflation Watches* of *Commentary No. 920* and *Special Commentary No. 918-B* of October 30th, with the nomination for the new Fed Chairman, as touched upon in the *Hyperinflation Watch* *Commentary No. 919-A* of November 3rd, not likely to have immediate, near-term market impact.

Discussed in *Hyperinflation Watch* of *Commentary No. 909*, given the continuing and broadening weakness in the U.S. economy and shifting political instabilities/circumstances in Washington, mixed pronouncements of sharp, near-term rate hikes and aggressive balance-sheet liquidation remain unlikely to solidify as promised. Accordingly, selling pressure against the U.S. dollar still should re-intensify, shortly, pressuring inflation and the prices of precious metals on the upside. Increasingly, foreign capital should flee the U.S. equity and credit markets at an accelerating pace.

In the context of the *Opening Comments* and *Hyperinflation Watch* of the August 14th *Special Commentary No. 904* and the *Opening Comments* of *Commentary No. 905*, underlying reality remains a weakening and vulnerable, seriously-impaired U.S. economy, as seen, for example with the latest employment and construction detail, and in likely weak data in the week ahead, all amidst continuing domestic and global political instabilities and unfolding natural disasters.

Unfolding circumstances still threaten the promised shift in FOMC policy, combined with the mounting political discord discussed in *Special Commentary No. 904* (see also the *Opening Comments* of *Commentary No. 901* and *Special Commentary No. 888*), odds continue to mount for intensifying financial-market turmoil in the near future, particularly as would be triggered by a market-related, intensifying heavy sell-off in the U.S. Dollar.

Broad economic activity never recovered fully from its crash into 2009, and it has started to turn down anew. As explored previously in the *Hyperinflation Watches* of *Commentary No. 899* and *General Commentary No. 894*, and further to the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 892*, headline economic reporting during June, July and early August of 2017, had shown a marked downturn versus consensus forecasts. While these circumstances usually signal an unfolding, major downshift in underlying economic reality, at present, they also forewarn of a potential shift in FOMC activity. Where such an event remains well removed from consensus expectations, at this time, in terms of Fed policy, that would mean a cessation of incremental rate hikes and a shift back towards expanded quantitative easing.

Immediate effects of such a policy change likely would include a massive sell-off in the U.S. dollar, which otherwise has been propped by recent FOMC rate hikes and continual jawboning for same. In parallel, heavy selling in the U.S. equity and credit markets would follow. As consensus economic forecasts have begun to soften, so too has the U.S. dollar exchange rate, while gold prices generally have firmed.

The circumstances here and the outlook still remain as broadly outlined in *No. 859 Special Commentary*; currently shifting headlines only reflect the continued movement and evolution forward in time of the Fed's difficulties discussed in that missive.

The problem for the Federal Reserve remains that faltering domestic economic activity stresses banking-system solvency. Aside from formal obligations of the Fed to maintain healthy domestic economic and inflation conditions, the central bank's primary function (in practice) always has been to keep the banking system afloat. The near-absolute failure of that function in 2008 remains the primary ongoing and unresolved problem for the Fed, and it continues as one of the ongoing primary issues preventing the return of U.S. economic activity to normal functioning. Contrary to the recent purported headline comments of "not in our lifetime" by Federal Reserve Chair Janet Yellen, the continued unfolding of "unexpected" economic deterioration suggests that the next major systemic financial crisis is likely to break in the next several months.

Generally, 2017 benchmark revisions to Construction Spending (see *Commentary No 897*), the Trade Deficit (*Commentary No. 890*), Industrial Production (*Commentary No. 877*), Manufacturers' Shipments (*Special Commentary No. 888*), Housing Starts (*Commentary No. 887*) and Retail Sales (*Commentary No. 882*), and reporting subsequent to the benchmarks, confirmed that historical activity in recent years has been overstated and/or that it was turning down anew, particularly in 2015, with the availability of better-quality historical detail. Again, that is despite some recent near-term improvement in details, such as the headline unemployment rate, which increasingly suffers from dysfunctional definitional and sampling issues, and the latest headline GDP detail.

The reporting patterns of the better-quality, less-gimmicked series likely will continue to weaken with increasing intensity in the weeks and months ahead. Adding a negative uncertainty to unfolding financial-market risks remains potential political surprise, discussed in *Special Commentary No. 888*. Otherwise, the broad outlook has not changed. Reflected in common experience, actual U.S. economic activity generally continues in stagnation or downturn, never having recovered its level of pre-economic-collapse (its pre-2007-recession peak), while the latest GDP reporting shows an otherwise unconfirmed economic expansion of 14.4%.

Discussed in *No. 859 Special Commentary*, the Trump Administration continues to face extraordinarily difficult times, but still has a chance to turn the tide on factors savaging the U.S. economy and on highly negative prospects for long-range U.S. Treasury solvency and stability. Any forthcoming economic stimulus faces a nine-month to one-year lead-time, once in play, before it meaningfully affects the broad economy. Increasing and continuing delays from political discord continue to push targeted programs back in time. Needed at the same time are a credible plan for bringing the U.S. long-term budget deficit (sovereign solvency issues) under control and action to bring the Federal Reserve under control and/or to reorganize the banking system. These actions broadly are necessary to restore domestic-economic and financial-system tranquility (see *No. 859*), but they cannot happen without the meaningful participation and cooperation of Congress. The financial crisis at hand likely will intensify well before the 2018 Congressional Election will have any chance to stabilize the political outlook for economic policy.

No. 859 Special Commentary updated the post-election, near-term economic and inflation conditions, including general economic, inflation and systemic distortions, which had evolved out of the Panic of 2008, have continued in play and, again, need to be addressed by the Trump Administration and Congress (see also the *Hyperinflation Watch* of Commentary No. 862 and Commentary No. 869).

Contrary to the official reporting of an economy that collapsed from 2007 into 2009 and then recovered strongly into ongoing expansion, underlying domestic reality remained and remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 but never recovered fully. While the economy bounced off its 2009 trough, it entered a period of low-level stagnation and then began to turn down anew in December 2014, a month that eventually should mark the beginning of a "new" formal recession (see General Commentary No. 867). Formal economic expansion does not begin until economic recovery breaks above its pre-recession high.

Coincident with and tied to the economic crash and the Panic of 2008, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central-bank policies never have recovered. Unwilling to admit its loss of systemic control, the Federal Reserve has made loud noises in the last year or so of needing to raise interest rates, in order to contain an "overheating" economy, but that "overheating" activity—never recognized by Main Street, U.S.A.—has been fading quickly. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: Commentary No. 902-B, General Commentary No. 894, Special Commentary No. 885, Commentary No. 869, No. 859 Special Commentary, No. 777 Year-End Special Commentary (December 2015), No. 742 Special Commentary: A World Increasingly Out of Balance (August 2015) and No. 692 Special Commentary: 2015 - A World Out of Balance (February 2015). Those publications updated hyperinflation and economic outlooks published in 2014 Hyperinflation Report—The End Game Begins – *First Installment Revised* (April 2014) and 2014 Hyperinflation Report—Great Economic Tumble – *Second Installment* (April 2014). The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance. Other references on underlying economic reality are the Public Commentary on Inflation Measurement and the Public Commentary on Unemployment Measurement.

Recent Commentaries. *[Listed here are* Commentaries *of the last month or so, plus recent* Special Commentaries *and others covering a variety of non-monthly issues, including annual benchmark revisions, dating back through the beginning of 2017. Please Note: Complete ShadowStats archives back to 2004 are found at www.ShadowStats.com (left-hand column of home page).]*

Commentary No. 924 (December 8th) discussed the November 2017 Employment and Unemployment details and Conference Board Help Wanted OnLine® Advertising, the October Trade Deficit and Construction Spending and updated Monetary Conditions in November.

Commentary No. 923 (November 29th) covered the second estimate of Third-Quarter 2017 GDP, including initial estimates for Third-Quarter GNP, GDI and Per Capita Real Disposable Income, the October Trade Deficit, Cass Freight Index and New-Home Sales.

Commentary No. 922 (November 22nd) reviewed October 2017 New Orders for Durable Goods and Existing-Home Sales.

Commentary No. 921 (November 17th) reviewed October 2017 Industrial Production, Housing Starts and Building Permits.

Commentary No. 920 (November 15th) reviewed October 2017 Retail Sales along with the monthly Consumer and Producer Price Indices (CPI and PPI) and updated *Hyperinflation Watch*.

Commentary No. 919-B (November 6th) provided more in-depth detail on the October 2017 labor detail.

Commentary No. 919-A (November 3rd) provided initial detail and background on October labor data, and reviewed the October 2017 Conference Board Help Wanted OnLine® Advertising, the September Cass Freight Index™, Trade Deficit and Construction Spending, and updated Monetary Conditions.

Special Commentary No. 918-B (October 30th) provided a more comprehensive review of the initial third-quarter 2017 GDP detail, along with update versions of the *Hyperinflation Watch* and *Consumer Liquidity Watch*.

Advance Commentary No. 918-A (October 27th) provided a brief summary of the headline detail of the first or "advance" estimate of third-quarter 2017 GDP.

Commentary No. 917 (October 26th/27th) reviewed September Industrial Production, New Orders for Durable Goods, New Residential Construction (Housing Starts and Building Permits) and New- and Existing-Home Sales.

Commentary No. 916 (October 20th) reviewed the September 2017 Retail Sales details along with the headline Consumer and Producer Price Indices for September.

Commentary No. 915 (October 6th) reviewed the September 2017 Employment and Unemployment details, along with September 2017 monetary conditions.

Commentary No. 913 (September 28th) reviewed the third-estimate of second-quarter 2017 GDP, with a further consideration of some unusual economic reporting in the near future.

Commentary No. 910 (September 15th) reviewed the August 2017 releases of Industrial Production and nominal and real Retail Sales.

Commentary No. 909 (September 14th) assessed the annual release of 2016 Real Median Household Income, along with a review of August Consumer Price Index (CPI) and the Producer Price Index (PPI) and an updated *Alert* on the financial markets

Commentary No. 908-B (September 6th) provided extended detail of the August 2017 Labor and Monetary conditions and July 2017 Construction Spending, along with coverage of the July 2017 Trade Deficit and the initial estimate of the 2017 Payroll Employment benchmarking.

Special Commentary No. 904 (August 14th) issued an "Alert" on the financial markets (including U.S. equities, the U.S. dollar gold and silver, as well as FOMC policy), in the context of historical activity and unfolding circumstances of deteriorating economic and political conditions. Separately, headline details were reviewed for the July Consumer Price Index (CPI) and the Producer Price Index (PPI).

Commentary No. 903 (August 7, 2017) discussed new signals of economic deterioration in terms of political and FOMC considerations, along with headline coverage of the July labor data, M3 and The Conference Board Help Wanted OnLine®, and June trade deficit and construction spending.

Commentary No. 902-B (July 31, 2017) reviewed the 2017 annual benchmark revisions of GDP and related series, along with the "advance" estimate of second-quarter 2017 GDP.

Commentary No. 900 (July 19, 2017) reviewed June 2017 New Residential Investment (Housing Starts and Building Permits), and previewed the upcoming annual GDP benchmark revisions and the coincident "advance" estimate of second-quarter 2017 GDP.

Commentary No. 897 (July 6, 2017) reviewed the headline May 2017 Construction Spending and the annual revisions to same, along the May Trade Deficit, and June The Conference Board Help Wanted OnLine® Advertising and the May Cass Freight Index™.

General Commentary No. 894 (June 23, 2017) reviewed unfolding economic, financial and political circumstances in the context of market expectations shifting towards an "unexpected" headline downturn in broad economic activity, along with headline details on May 2017 Real Median Household Income (Sentier Research) and New- and Existing-Home Sales.

Commentary No. 890 (June 5, 2017) covered the negative-downside annual benchmark revisions to the trade deficit, the May 2017 estimates of labor conditions, ShadowStats Ongoing Money Supply M3, The Conference Board Help Wanted OnLine® Advertising and April 2017 estimates of the Cass Freight Index™, and the monthly trade deficit and construction spending.

Special Commentary No. 888 (May 22, 2017) discussed evolving political circumstances that could impact the markets and the economy, reviewed the annual benchmark revisions to Manufacturers' Shipments and New Orders for Durable Goods and updated Consumer Liquidity Conditions.

Commentary No. 887 (May 18, 2017) reported on the April 2017 detail for Industrial Production and Residential Construction (Housing Starts), with some particular attention to historic, protracted periods of economic non-expansion, of which the current non-recovery is the most severe.

Special Commentary No. 885, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, (May 8, 2017) reviewed the unusual nature of the headline reporting of the April 2017 employment and unemployment details.

Commentary No. 882 (April 27, 2017) summarized the annual benchmark revisions to Retail Sales and reviewed the March 2017 releases of New Orders for Durable Goods and New- and Existing-Home Sales.

Commentary No. 877 (April 2, 2017) outlined the nature of the downside annual benchmark revisions to industrial production, along with implications for pending annual revisions to Retail Sales, Durable Goods Orders and the GDP.

Commentary No. 876 (March 30, 2017) current headline economic activity in the context of formal definitions of the business cycle (no other major series come close to the booming GDP, which is covered in its third revision to fourth-quarter activity. Also the February 2017 SentierResearch reading on real median household income was highlighted.

Commentary No. 875 (March 24, 2017) assessed and clarified formal definitions of the U.S. business cycle, which were expanded upon significantly, subsequently, in *No. 876*. It also provided the standard review of the headline February 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the Cass Freight Index™.

General Commentary No. 867 (February 24, 2017) assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such was in the context of contracting and faltering industrial production that now rivals the economic collapse in the Great Depression as to duration. Also covered were the prior January 2017 New- and Existing Home Sales.

Commentary No. 864 (February 8, 2017) analyzed January 2017 Employment and Unemployment detail, including benchmark and population revisions, and estimates of December Construction Spending, Household Income, along with the prior update to Consumer Liquidity.

Commentary No. 861 (January 13, 2017) covered the December 2016 nominal Retail Sales, the PPI, with a brief look at some summary GAAP reporting on the U.S. government's fiscal 2016 operations.

No. 859 Special Commentary (January 8, 2017) reviewed and previewed economic, financial and systemic developments of the year passed and the post-election year ahead.

Note on Reporting-Quality Issues and Systemic-Reporting Biases. In the context of historical background provided in *Special Commentary No. 885*: *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, 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 both to understate inflation and to overstate economic activity meaningfully—as generally viewed in the common experience of Main Street, U.S.A.—ongoing, near-term headline reporting issues often reflect systemic distortions of monthly seasonal adjustments.

Data instabilities—induced partially by the still-evolving economic turmoil of the last 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). While historical seasonal-factor adjustments are revised every month, based on the latest, headline monthly data, the consistent, revamped historical data are not released or reported at the same time. 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 2016 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 July 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 several years 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*). Investigative-financial/business reporter John Crudele of the *New York Post* has written extensively on such reporting irregularities: *Crudele Investigation*, *Crudele on Census Bureau Fraud* and *John Crudele on Retail Sales*.

PENDING ECONOMIC RELEASES: *Updated:* Retail Sales—Nominal and Real (November 2017). The Census Bureau will release its "advance" estimate of November 2017 nominal (not-adjusted-for-inflation) Retail Sales tomorrow, Thursday, December 14th. Detail on both the nominal and real (adjusted-for-inflation) Retail Sales will be discussed in *Commentary No. 926* of December 15th. With some pullback from hurricane-bloated activity in September and October 2017—particularly with some easing of replacement demand for storm-ravaged motor vehicles—headline aggregate nominal retail sales activity should be flat-to-minus, with real month-to-month activity in contraction, net of inflation. Odds favor reporting coming in on the downside of consensus expectations for this first of the two key Holiday Season months in 2017, where expectations are running around a nominal monthly gain of 0.3% to 0.4%, which would reflect no more than the monthly to be expected from monthly inflation, as reported today (December 13th) with the November CPI-U.

Accordingly, based on that headline November CPI-U, seasonally-adjusted November real retail sales activity will reflect the nominal month-to-month change less 0.39%, and the nominal seasonally-adjusted year-to-year change less 2.23%.

Beyond lingering hurricane disruptions and per the *Consumer Liquidity Watch*, without sustainable growth in real income (currently in contraction, discussed in the CPI *Reporting Detail*), and without the ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the liquidity-strapped U.S. consumer remains unable to sustain growth in regular, broad economic activity. Such includes personal-consumption expenditures and retail sales, real or otherwise. Those liquidity circumstances likely have been exacerbated, temporarily, by hurricane disruptions.

Updated: **Index of Industrial Production (November 2017).** The Federal Reserve Board will publish its estimate of November 2017 Industrial Production on Friday, December 15th, with coverage in *Commentary No. 926* of that date. Where recent monthly activity was boosted by recovery from hurricane disruptions to petroleum production and spiked by factors such as production of replacement automobiles for storm-destroyed vehicles, fundamental trends still are to the downside and should recover dominance of the system in the month and months ahead. Accordingly, November production has a good shot of a fall-back catch-up in production, with continuing non-recovery in the manufacturing sector. Nonetheless, consensus expectations are on the upside for November production, suggesting a monthly gain of 0.3% or 0.4%. The consensus outlook likely will be disappointed by the headline results.