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

**COMMENTARY NUMBER 389**
**August Retail Sales, PPI, 2010 Household Income**

**September 14, 2011**

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**Flat August Retail Sales Most Likely Were Down Net of Inflation**

**Real Median Household Income Drops to 15-Year Low (Below 1969 Level, CPI-U Adjusted)**

**Volatile PPI Reporting Flat for Month, Up 6.5% for Year**

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*PLEASE NOTE: The next regular* Commentary *is scheduled for tomorrow, Thursday, September 15th. It will cover the August CPI and industrial production. A* Special Commentary *would be published, as appropriate, in response to any unusual market or economic developments.*

*—Best wishes to all, John Williams*

**Opening Comments and Executive Summary.** The U.S. consumer remains in an intensifying, structural liquidity squeeze, where household income cannot keep up with inflation, and where there is inadequate credit availability to make up the difference. In such a circumstance, consumer spending cannot show sustained expansion in real (inflation-adjusted) terms and neither can the broader economy. This largely is responsible for the "developing" double-dip, or ongoing downside bottom-bouncing, in the protracted and extraordinarily deep economic downturn of the last five years or so.

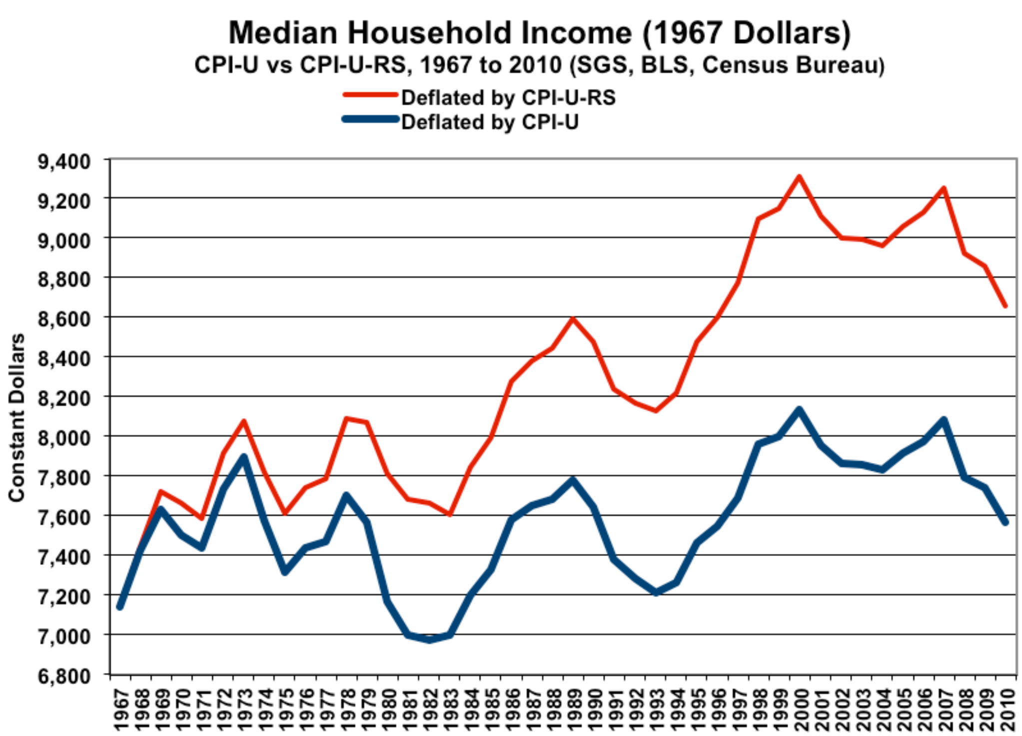
***August Retail Sales, PPI.*** The general inflation and economic overview will be updated in tomorrow's (September 15th) *Commentary*, subsequent to the CPI and industrial production releases.

August retail sales were reported flat month-to-month (plus or minus 0.6%), today. The monthly sales number most likely will be negative after inflation-adjustment. That would result from the reporting of any positive inflation in tomorrow's August CPI.

The somewhat randomly volatile producer price index (PPI) also was reported today as flat in August, with year-to-year PPI inflation at 6.5%.

***2010 Poverty Report.*** The government's poverty reporting is not particularly meaningful, given a wide variety of definitional and surveying issues. The included household income numbers, however, usually are of significance and of interest. That said, poverty and household income conditions deteriorated sharply, as shown in yesterday's (September 13th) 2010 annual report.

Both the mean (average) and median (middle) household income measures, deflated for inflation, fell sharply, dropping to 15-year lows. The variance measures in household income (the relative distribution of income between low, middle and high levels) rose and are at or near record levels, which usually is a signal of extremely difficult and volatile economic times ahead. Median income generally is the more meaningful measure in times of extreme income variance.



The preceding chart shows median household income deflated using two Bureau of Labor Statistics (BLS) inflation measures, the CPI-U and the CPI-U-RS. In both instances, 2010 levels have never recovered their pre-2001 recession highs.

The CPI-U-RS, an "experimental" series used by the Census Bureau, enables reporting with reduced historical inflation levels. The result is a stronger inflation-adjusted pattern of income change (red line), than what usually would be the official weaker picture (blue line) based on the traditional CPI-U reporting and deflation.

The CPI-U (All Urban Consumers) is the headline consumer inflation number published by the BLS and the one most commonly used in deflating consumer-related dollars. The Census Bureau appears to have used the CPI-U in its annual poverty reports up until 2003.

The CPI-U-RS (Current Methods) is a special version of the CPI-U with its history restated so as to reduce earlier-year inflation by imputing what it would have been, using today's "advanced" CPI reporting methodologies. The CPI-U-RS is the index used by the Census Bureau in deflating income numbers in the Poverty Report since 2003. It also is the series reverse-engineered by ShadowStats.com for constructing the SGS Alternate CPI estimates.

The difference in reporting is that traditional CPI-U deflation shows that the level of 2010 median household income is below where it was in 1969. These issues are discussed more fully in the *Hyperinflation Special Report (2011)*.

**Hyperinflation Watch.** With the still unfolding economic and systemic solvency crises—as discussed in the recent *Commentaries* and repeated here—the broad inflation and economic outlooks detailed in the *Hyperinflation Special Report (2011)* continue to unfold and are unchanged. The general outlook will be reviewed in tomorrow's September 15th Commentary.

The financial markets still are unstable and extremely volatile, roiled by deepening crises of confidence in the U.S. dollar and in the long-term outlook for U.S. financial, economic, systemic and political stability. For those living in a U.S. dollar-denominated world, regardless of further near-term extreme volatility in the U.S. dollar—in either direction—versus the stronger major currencies and gold, the stronger currencies and precious metals remain the fundamental hedges against what lies ahead.

Massive, fundamental dollar dumping and dumping of dollar-denominated assets could start at anytime, with little or no further warning. With a U.S. government unwilling to balance or even to address its uncontainable fiscal condition; with the federal government and Federal Reserve standing ready to prevent a systemic collapse, so long as it is possible to print and spend whatever money is needed; and with the U.S. dollar at risk of losing its global reserve currency status; much higher inflation lies ahead, in a circumstance that rapidly could evolve into hyperinflation.

## REPORTING DETAIL

### RETAIL SALES (AUGUST 2011)

**Flat August Retail Sales Likely Fell Net of Price Increases.** With August retail sales reported as flat versus July, the 95% confidence interval around that would allow for a monthly gain or contraction within a range of plus 0.6% to minus 0.6%, with the actual monthly change falling outside that range one-in-twenty times. Nonetheless, with August inflation most likely in upside territory, the monthly change in August retail sales should have been a contraction, net of rising prices. The physical volume of the goods and services consumed appears to have contracted for a second month, and quarterly real (inflation-adjusted) growth is on track for a flat-to-minus third quarter, following a flat second-quarter. The broad economy remains in serious trouble.

Additionally, as previously discussed (see the *Hyperinflation Special Report (2011)* for example), the retail sales numbers undergo concurrent seasonal-factor adjustment, where current and historical seasonal factors are revised every month. The stability of the seasonal-adjustment process, however, has been disrupted by the unprecedented depth and length of the current economic downturn in the post-World War II era (the period of modern economic reporting). These issues have distorted monthly reporting for a number of key series, leaving the markets effectively flying blind on actual underlying economic activity.

***Nominal (Not-Adjusted-for-Inflation) Retail Sales.*** Today's (September 14th) report on August 2011 retail sales—issued by the Census Bureau—indicated that seasonally-adjusted August retail sales effectively were unchanged, up by 0.04% (down by 0.24% before prior-period revisions) +/- 0.6% (95% confidence interval). August's flat monthly performance was against a revised 0.27% (previously 0.47%) monthly increase in July.

On a year-to-year basis, August 2011 retail sales were reported up by 7.16%, a pace slower than that of the revised year-to-year July 2011 gain of 8.32% (previously 8.53%).

***Real (Inflation-Adjusted) Retail Sales.*** Details on real retail sales for August will be published in the September 15th *Commentary*, along with details on the August 2011 CPI-U release. Given likely higher CPI-U inflation (see *Week* Ahead), real retail sales for August likely contracted month-to-month.

***Core Retail Sales.*** Assuming that the bulk of non-seasonal variability in food and gasoline sales is in pricing, instead of demand, "core" retail sales—consistent with the Federal Reserve's preference for ignoring food and energy prices when "core" inflation is lower than full inflation—are estimated using two approaches:

*Version I:* August 2011 versus July2011 seasonally-adjusted retail sales—net of total grocery store and gasoline station revenues—was down by 0.1% (down by 0.07% before rounding) versus an official unchanged reading (up by 0.04% before rounding).

*Version II:* August 2011 versus July 2011 seasonally-adjusted retail sales—net of the monthly change in revenues for grocery stores and gas stations—was down minimally by 0.1% (down by 0.05% before rounding) versus an official unchanged reading (up by 0.04% before rounding).

## PRODUCER PRICE INDEX—PPI (AUGUST 2011)

**Monthly Wholesale Inflation Reported Flat for August, Up 6.5% Year-to-Year.** As reported this morning, September 14th, by the Bureau of Labor Statistics (BLS), the regularly-volatile, seasonally-adjusted finished-goods producer price index (PPI) for August 2011 was unchanged (down by 0.4% before seasonal adjustment) month-to-month, following a monthly increase of 0.2% (up by 0.4% before seasonal adjustment) in July. The adjusted, monthly August PPI finished goods number was boosted by oil-price seasonal adjustments, and the 0.1% monthly gain in "core" inflation was below consensus. Again, this series is regularly and randomly volatile.

Unadjusted and year-to-year, August 2011's PPI inflation eased to 6.5% from 7.2% in July. The recent run-up in annual PPI inflation generally has reflected ongoing impact of the Fed's dollar-debasement policies, not surging economic demand.

Separately, on a monthly basis, seasonally-adjusted August 2011 intermediate goods declined by 0.5%, versus a gain of 0.2% in July, with August's crude goods prices up by 0.2%, after falling 1.2% in July. Year-to-year inflation in August intermediate goods was 10.3%, versus an 11.6% gain in July, with August's annual inflation in crude goods at 18.4%, versus July's 22.6% gain.

## HOUSEHOLD INCOME (2010 POVERTY SURVEY)

**Household Income and Liquidity Deteriorated Sharply in 2010.** Some of the text that follows is repetitive from prior years; the story varies little. The U.S. Census Bureau published *Income, Poverty, and Health Insurance Coverage in the United States: 2010 (Poverty Report)*, yesterday, September 13th. The value of this report is in its estimates of household income and income variance, not in its poverty estimates. Annual poverty reporting *per se* is not too meaningful, where the structure of the reporting is highly subjective. Not too surprisingly, more people were reported in poverty as of 2010 than as of 2009.

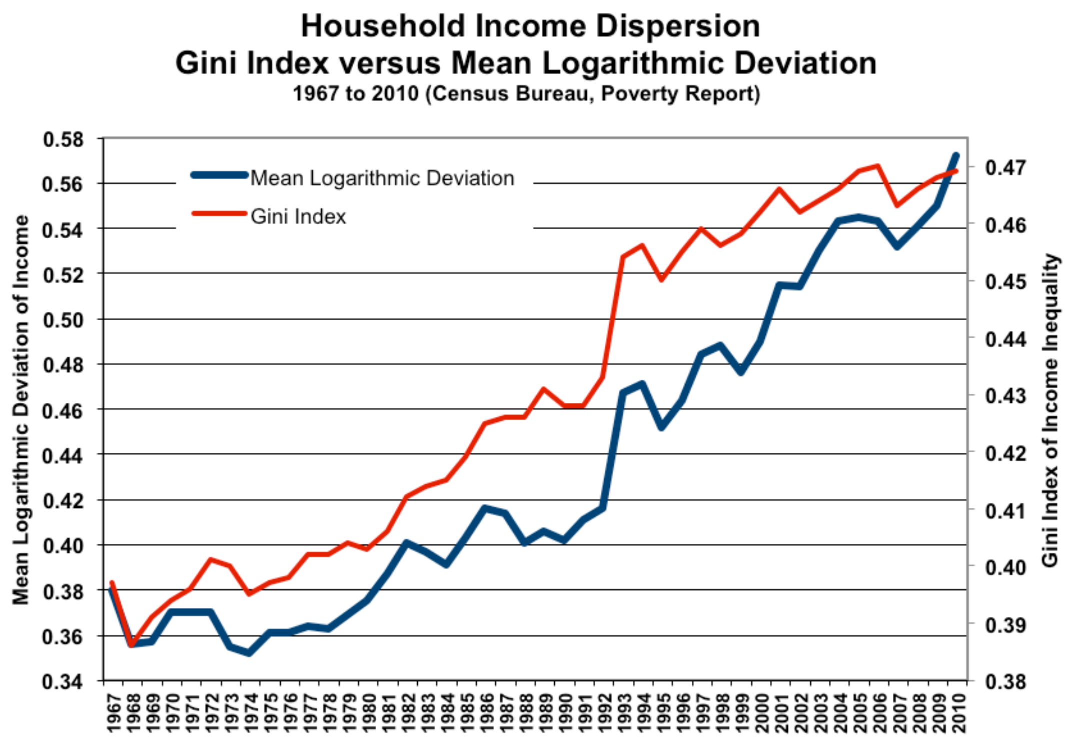
Measuring "poverty" is difficult, at best, when few can agree on a definition. There are many who do not consider themselves to be poor, even though they meet the government's standards, while others think they are poor but are not so defined. Separately the whole process has been heavily influenced by politics, with even some short-term efforts at impacting the numbers. For example, the survey's inner-city sampling size was reduced (with Congressional oversight) during the Clinton Administration, and then re-expanded at the end of the Clinton era.

The actual survey usually is piggy-backed on the March household unemployment survey of the year following the reported data. So the March 2011 survey of 2010 data is what was published yesterday. What follows is brief update of the numbers.

***Rising Income Dispersion Usually Foreshadows Economic and Financial Market Turmoil.*** Measures of income dispersion, or variance, indicate how income is distributed within a population. A low level of income dispersion indicates that income tends to be concentrated in the middle, while a high level of dispersion indicates heavier income concentrations in the extremes of low and high income, with less in the middle. The higher the variance of income is, as shown in the graph, the greater is the income dispersion.

Generally, the more moderate the income variance is, the stronger the middle class is, and the healthier the economy will be. Conversely, the greater the variance in income is, the more negative are the longer term economic implications. A person earning $100,000,000 per year is not going to buy proportionately more automobiles than someone earning $100,000 per year.



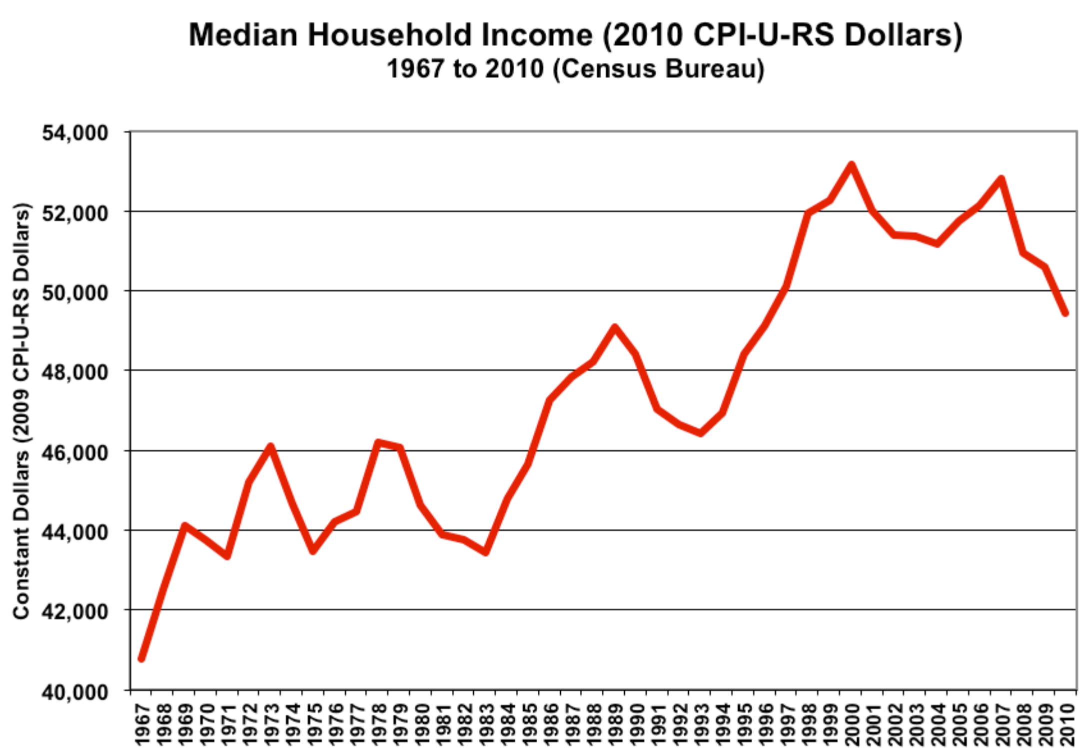

Conditions surrounding extremes in income variance usually help to fuel financial-market bubbles, followed by financial panics and economic depressions. The sequence of those factors tends to redistribute income in a manner that usually lowers income variance. Other than for a brief dip following the 1987 stock-market crash, however, U.S. income variance since 1987 has been higher than has been estimated for the economy going into the 1929 stock-market crash and the Great Depression, and its current reading remains nearly double that of any other "advanced" economy. Variance increased further in 2010.

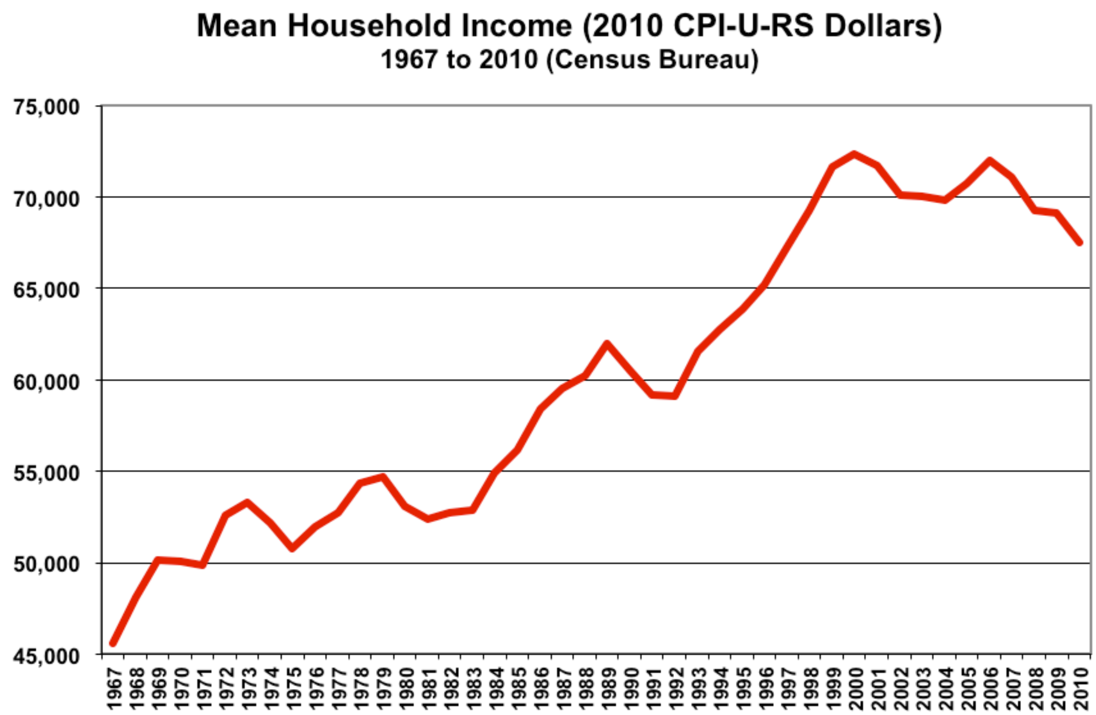
Shown in the preceding graph are the Gini Index of Income Inequality and the Mean Logarithmic Deviation of Income (MLD), two of the more popular income dispersion series. Some of the finer points and mathematics behind several of the income variance measures are covered in the Census Bureau's article: *The Changing Shape of the Nation's Income Distribution*.

The increase of income dispersion in 2010 to record or near-record highs for both series, despite the ongoing economic and systemic liquidity crises, suggests that the greatest negative impact of the systemic turmoil, so far, has been on those in the middle-income area. It also is suggestive of even greater financial crises still ahead.

***Household Income Fell in 2010; Real Household Income Has Fallen Back to 1996/1997 Levels (1969 Level Deflated Using CPI-U).*** Consumer liquidity remained in contraction during 2010, with both household income and consumer credit tumbling in nominal and real terms (not adjusted and adjusted for inflation). Constrained consumer liquidity usually results in restrained personal consumption, as suggested by today's August 2011 retail sales report.

The next two graphs show inflation-adjusted median and mean levels of household income from 1967 through 2010. The median measure is the middle measure of the survey and likely is a better reflection of how most households are doing. When the income dispersion measure is high, the mean, or average, measure tends to be skewed (in this case to the upside). Nonetheless, both measures showed sharp declines in 2010, adjusted for inflation. On a real basis, neither series has topped the annual high levels seen before the 2001 recession, with real median and mean household incomes hitting their respective tops in 1999 and 2000. As discussed in the *Opening* Comments, on a real basis using the CPI-U, median household income in 2010 was below its level of 1969.






**Week Ahead.** Though still not widely acknowledged, there is both an intensifying double-dip recession and a rapidly escalating inflation problem. Until such time as financial-market expectations fully catch up with underlying reality, reporting generally will continue to show higher-than-expected inflation and weaker-than-expected economic results in the month and months ahead. Generally, previously unreported economic weakness should show up in prior-period revisions.

***Consumer Price Index—CPI (August 2011).*** The release of the August 2011 CPI is scheduled for tomorrow, Thursday, September 15th, and it again is at fair risk of topping a relatively soft 0.2% (Briefing.com) consensus outlook for the headline monthly. At work here will be a continued boost to gasoline prices from seasonal adjustments, while further inflationary pressures from the recent Fed-induced jump in oil prices continues to spread in the general, non-"core" economy.

Specifically, in terms of gasoline, unadjusted retail prices fell on average by 0.2% in August 2011 (Department of Energy). Paralleling what should be similar seasonal impact in 2011 reporting, a 0.4% unadjusted monthly gain in August 2010 was boosted to a 3.9% increase after seasonal adjustments.

The reported, unadjusted, total year-to-year CPI-U inflation would increase or decrease in August 2011, dependent on the reported seasonally-adjusted monthly change, versus the 0.21% gain in the adjusted monthly level reported for August 2010. I use the adjusted change here, since that is how consensus expectations are expressed. To approximate the annual inflation rate for August 2011, the difference in August's headline monthly change (or forecast of same) versus the year-ago monthly change should be directly added to or subtracted from July 2011's reported annual inflation rate of 3.63%. For example a consensus 0.2% gain in the monthly CPI-U inflation would yield annual August inflation at around the 3.6% July level; a 0.4% gain would push annual inflation up to about 3.8%.

***Industrial Production (August 2011).*** The release of August 2011 industrial production also is scheduled for release on Thursday, September 15th. One-time factors (relatively extreme utility usage and the resumption of Japanese car assemblies in the United States) that boosted the initial estimate of July production by 0.9% are not likely to be repeated in the latest numbers. The consensus estimate for the monthly change in production activity for August is flat (Briefing.com). A flat-to-minus result is reasonable, as the broad economy begins its formal double-dip recession.

***Housing Starts (August 2011).*** August residential construction data are due for release on Tuesday, September 20th. The historic weakness in housing starts should continue, again with an intensifying downtrend. As seen generally in the last several years, any upside movement likely will not be statistically meaningful.