

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

COMMENTARY NUMBER 407
November CPI, PPI, Real Retail Sales Industrial Production

December 16, 2011

Consumer Financial Distress Hampered Retail Sales and Production

Nonsensical Hype Over Regularly Mis-Adjusted Jobless Claims

High Oil Prices Still Inflating Broad Economy

November's Annual Inflation: 3.4% (CPI-U), 3.8% (CPI-W), 11.0% (SGS)

Gold Remains the Ultimate Hedge

PLEASE NOTE: The next regular Commentary is scheduled for Wednesday, December 21st, covering November housing starts and existing home sales (and revisions). Official release of the 2011 Financial Report of the United States Government now is "to be determined." We shall keep you posted. See [Schedule](#) for month ahead.

—Best wishes to all for a most joyous holiday season! John Williams

Opening Comments and Executive Summary. November retail sales and industrial production both showed renewed faltering in the U.S. economy, reflecting the impact of the structural impairment of consumer liquidity. Although the headline CPI inflation number was flat for November, underlying detail

showed the still spreading impact of high oil prices. Inflationary pressures continue to be from Federal Reserve policies, not from strong economic activity. As the Fed increasingly is pushed to support the banking system, the central bank's actions should accelerate the pace of U.S. dollar debasement, as well as the pace of rising U.S. inflation and precious metals prices.

Economic Activity. Yesterday (December 15th), Wall Street heavily hyped the second week of decline in the seasonally-adjusted new claims for unemployment insurance. As repeatedly discussed in *Commentaries* (see the [Hyperinflation Special Report \(2011\)](#) for a detailed discussion), though, sharp week-to-week swings in the jobless claims series usually are of no substance, since the large changes almost always are due to the inability of the Department of Labor (DOL) to seasonally-adjust the data meaningfully, particularly around holidays. Also, with holidays such as Thanksgiving, the DOL sometimes has to guess results, temporarily, for non-reporting states.

The starting numbers for the weeks in question here, involved the week including Thanksgiving, and the week following Thanksgiving. Accordingly, there should be some corrective swings back in the other direction (to the upside) in the next two weeks, before the weekly numbers go through their market-moving Christmas and New Year's gyrations.

Also keep in mind that the jobless claims mirror only the layoffs. The positive offset to these data is hiring, which is mirrored in help-wanted advertising. As discussed in [Commentary No. 403](#), however, help-wanted advertising has been in monthly decline since May of this year.

Real Retail Sales. Adjusted for inflation, there was no meaningful month-to-month change in November retail sales. With headline consumer inflation unchanged for the month, November retail sales rose a reported 0.2% on both a nominal (not-adjusted) and real (adjusted-for-inflation) basis, but that gain just as easily could have been a contraction, given the 95% confidence interval of +/- 0.6% around the reported change. October's monthly real growth was 0.7%. On a year-to-year basis, real growth slowed to 3.2% in November, from 3.8% in October. The consumer difficulties that impaired the consumption reported for November do not bode well for activity in the annually-dominant retail sales month of December.

Industrial Production. Headline November industrial production was reported with a 0.2% contraction versus October, which, in turn was up by 0.7% versus September. Year-to-year growth slowed to 3.7% in November from 4.3% in October.

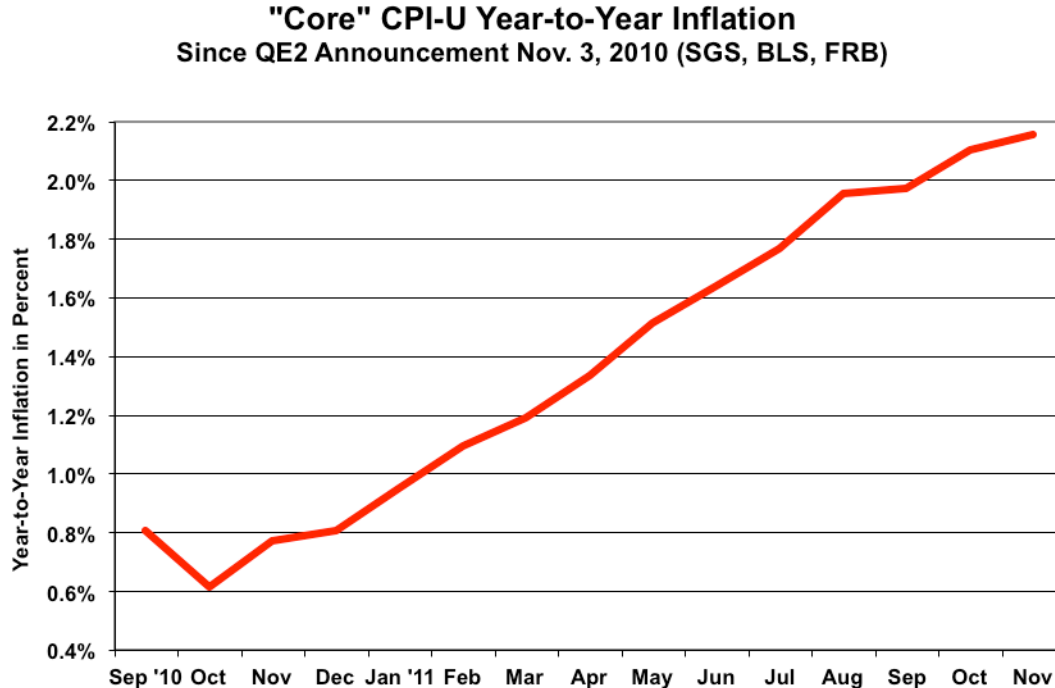
Reflecting a weakening consumer, large manufacturing hits were seen in November with a 5.5% monthly plunge in motor vehicle production, and a 1.8% drop in communication equipment (*i.e.* cell phones).

Underlying consumer fundamentals have not changed. Household income growth remains shy of headline inflation numbers, and debt expansion is not available to the consumer in order to make up the shortfall in maintaining his or her life-style or regular consumption levels.

Inflation. Muted again by declining gasoline prices, headline month-to-month consumer inflation for goods and services was unchanged in November 2011, after a 0.1% decline October. Annual inflation slowed slightly in November to 3.4% (versus 3.5% in October) for the CPI-U.

Annual growth softened in tandem to 3.8% for the CPI-W, 6.7% for the SGS-Alternate (1990-Based), and 11.0% for the SGS-Alternate (1980-Based).

Despite the somewhat slower total annual inflation pace, year-to-year inflation continued to rise in the economy outside of the food and energy sectors, as the impact of high oil prices still worked its way into the costs of most goods and services. Since the introduction a year ago of QE2, when annual “core” inflation was at 0.6%, annual “core” inflation has increased every month for the last thirteen months, hitting 2.2% in November.



Hyperinflation Watch—Dollar Debasement Has Just Begun. Despite all of Wall Street’s negative hoopla over gold during the price volatility of the last week, the precious metal still is on track to outperform the Dow Jones Industrial average, meaningfully, for the year. That would be the eighth consecutive year of doing so. Irrespective of any recent or future extreme price swings, however, I look at gold as the long-term hedge against all that has started to unfold in the ultimate debasement and destruction of the U.S. dollar.

My outlook has not changed a bit. The underlying fundamentals have not changed a bit. The domestic and global financial systems, however, appear to be on the brink of massive instabilities. This environment is one where prudent investors—in a U.S. dollar-denominated world—should be looking to preserve their wealth and assets, using assets that are liquid and that preserve the purchasing power of invested funds. Accordingly, gold, and related hedges such as silver; and stronger currencies such as the

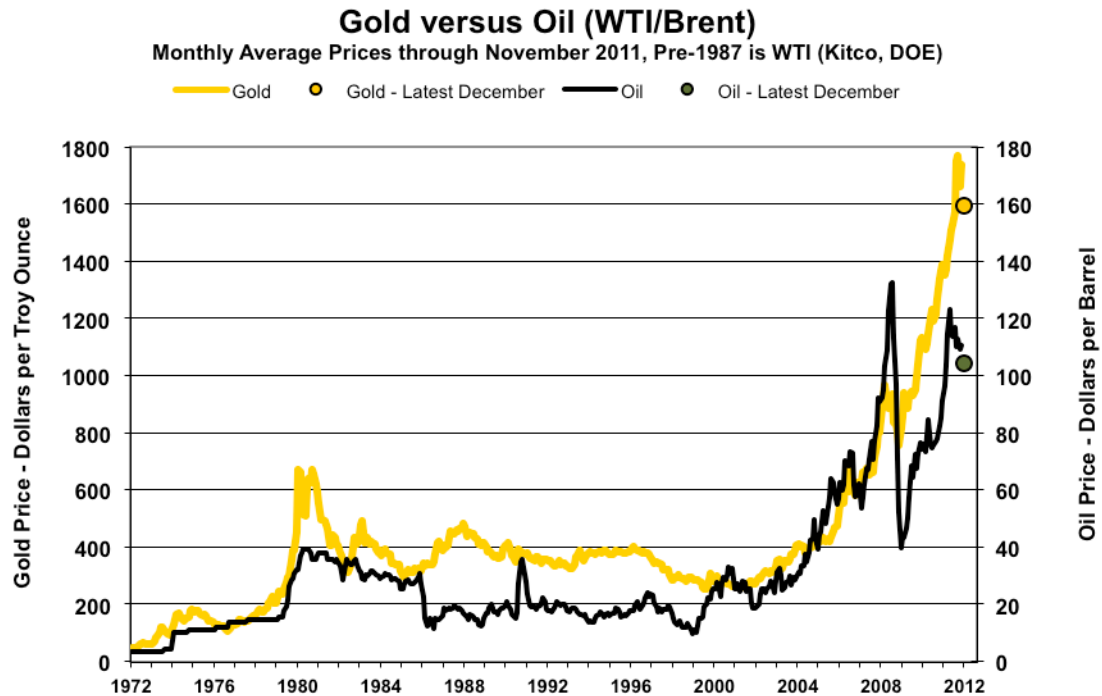
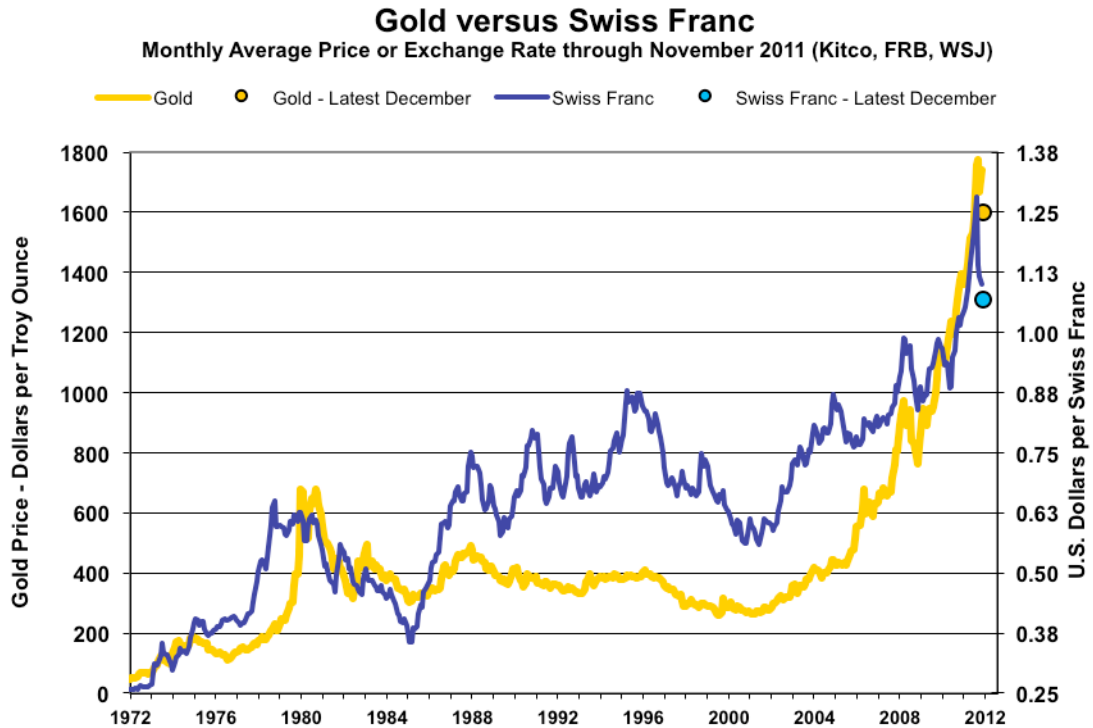
Swiss franc, Australian dollar and Canadian dollar; should be held for the long term. Irrespective of short-term market instabilities, such assets will prevail as the system falls into disorder.

A much weaker dollar and higher oil prices are likely in the near future, as the Fed remains locked in a position where it likely will be forced to act publicly in support of the banking system, with some new round of systemic liquefaction or easing. The effects of that should push the exchange rate value of the U.S. dollar much lower and push oil prices, domestic inflation and the price of gold much higher.

The Fed and the Treasury remain committed to preserving the system, to preventing systemic collapse. Accordingly, as they did in 2008 and beyond, the Fed and Treasury can be expected to guarantee, loan, spend and create whatever money is needed to prevent a systemic failure. The long-term cost of these actions remains inflation. Inflation, however, is likely to be a very near-term effect this time as well. The various economic and financial outlooks remain as discussed in [Hyperinflation Special Report \(2011\)](#); they will be reviewed in the pending *Hyperinflation 2012*.

The following paragraph largely is repeated from the prior Commentary: Since the publication of the [Hyperinflation Special Report \(2011\)](#) back in March, the outlooks on the economic and systemic-solvency crises, including the hyperinflation prediction, have not changed, but events—suggestive of accelerating movement towards a near-term dollar and inflation catastrophe—continue to unfold. Outside timing for the hyperinflation crisis remains 2014. These issues have been discussed and explored in various *Commentaries*, but they will be fully reviewed and updated in *Hyperinflation 2012*, which is planned for the second week of January. There could be a minor adjustment to timing to accommodate the shifting schedule of the *2011 Financial Report of the United States Government*. If, however, the GAAP-statements on Uncle Sam are delayed meaningfully, *Hyperinflation 2012* will be written around the delayed statements, with an appropriate supplement to follow at such time as the new data are released.

Following are the usual graphs of gold versus the Swiss franc, oil and silver. The volatility of the last week is indicated in the “Latest December” data points, which reflect the markets as this *Commentary* goes to press.





REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (November 2011)

Drop in Gasoline Prices Hit October Consumer Inflation. Another monthly decline in gasoline prices—amplified by negative seasonal-factor adjustments—held the adjusted CPI-U at unchanged for November, after October’s monthly CPI-U eased by 0.1%. Against stronger monthly inflation in November 2010, the year-to-year annual CPI-U inflation pace softened to 3.4% in November 2011, versus 3.5% in October. Outside of recent months, though, the November annual inflation still was the highest since October 2008.

Barring extraordinary factors in the last half of the month, seasonally-adjusted CPI should show a monthly gain in December. Seasonal factors for gasoline prices turn sharply positive in December, enough to swing the further decline in gasoline prices seen as of mid-December, versus November, to the plus-side. Nonetheless, inflationary pressures from already high oil prices spread even further into the broad economy in November, with the annual “core” inflation rate rising to 2.15% from 2.10% in October. That was the 13th straight month in which the annual “core” inflation rate increased.

Notes on Different Measures of the Consumer Price Index

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

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

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

*The **C-CPI-U (Chain-Weighted CPI-U)** is an experimental measure, where the weighting of components is fully substitution based. It generally shows lower annual inflation rate than the CPI-U and CPI-W. The latter two measures once had fixed weightings—so as to measure the cost of living of maintaining a constant standard of living—but now are quasi-substitution-based.*

*The **SGS 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.*

CPI-U. The BLS reported today (December 16th) that the headline, seasonally-adjusted November 2011 CPI-U was unchanged for the month. Headline reporting reflects change only to the first decimal point. To the second decimal point, adjusted November CPI-U was down by 0.02% (down 0.08% unadjusted), following a monthly decline of 0.08% (down 0.21% unadjusted) in October. The November reporting reflected an unadjusted 1.1% decline in monthly average gasoline prices (the Department of Energy reported an unadjusted 1.8% decline), but the adjusted BLS estimate widened to a deeper, seasonally-adjusted monthly contraction of 2.4%.

November's unadjusted year-to-year CPI-U inflation eased back to 3.39%, from 3.53% in October.

The November report, however, showed an ongoing trend of mounting inflationary pressures from the spread of higher energy prices into the broad economy (see the graph and comments in the *Opening Comments and Executive Summary*). On an annual basis, “core” CPI-U inflation moved higher for the 13th straight month, up to 2.15% in November, from 2.10% in October. When Fed Chairman Bernanke used his jawboning in a successful effort to debase the U.S. dollar in the global markets, in advance of announcing QE2 in November 2010, annual “core” inflation was at 0.61%.

Year-to-year total CPI-U inflation would increase or decrease in next month's December 2011 reporting, dependent on the seasonally-adjusted monthly change, versus the 0.43% gain in the adjusted monthly level reported for December 2010. I use the adjusted change here, since that is how consensus

expectations are expressed. To approximate the annual unadjusted inflation rate for December 2011, 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 November 2011's reported annual inflation rate of 3.39%.

CPI-W. The narrower, seasonally-adjusted CPI-W, which has greater weighting for gasoline than does the CPI-U, declined by 0.08% (down by 0.10% unadjusted) for the month of November, versus a monthly decline of 0.14% (down by 0.29% unadjusted) in October.

Unadjusted, November 2011's year-to-year CPI-W inflation was 3.75%, a slower pace than the 3.92% reported for October.

C-CPI-U. Year-to-year inflation in the C-CPI-U eased to 3.32% in November, from the 3.36% estimated for October.

The Chain-Weighted CPI-U—the fully substitution-based series that gets touted as a CPI replacement, by those who oppose use of the existing CPI-U and CPI-W, and by inflation apologists—including a number of politicians looking to cut deficit spending by using the C-CPI-U to reduce Social Security cost of living adjustments—is reported only on an unadjusted basis.

Alternate Consumer Inflation Measures. Adjusted to pre-Clinton (1990) methodology, annual CPI inflation was roughly 6.7% in November 2011, versus 6.9% in October, while the SGS-Alternate Consumer Inflation Measure, which reverses gimmicked changes to official CPI reporting methodologies back to 1980, eased to about 11.0% (10.99% for those using the extra digit) in November, from about 11.1% in October.

The SGS-Alternate Consumer Inflation Measure adjusts on an additive basis for the cumulative impact on the annual inflation rate of various methodological changes made by the BLS (the series is 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 most what consumers view as out-of-pocket expenditures. Roughly five percentage points of the additive SGS adjustment reflect the BLS's formal estimate of the annual impact of methodological changes; roughly two percentage points reflect changes by the BLS, where SGS has estimated the impact not otherwise published by the BLS.

Gold and Silver Highs Adjusted for CPI-U/SGS Inflation. Despite the September 5th 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 28th), 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) of January 21, 1980 would be \$2,472 per troy ounce, based on November 2011 CPI-U-adjusted dollars, \$8,702 per troy ounce based on SGS-Alternate-CPI-adjusted dollars (all series not seasonally adjusted).

In like manner, the all-time high price for silver in January 1980 of \$49.45 per troy ounce (London afternoon fix, per silverinstitute.org), although approached earlier this year, still has not been hit since 1980, including in terms of inflation-adjusted dollars. Based on November 2011 CPI-U inflation, the

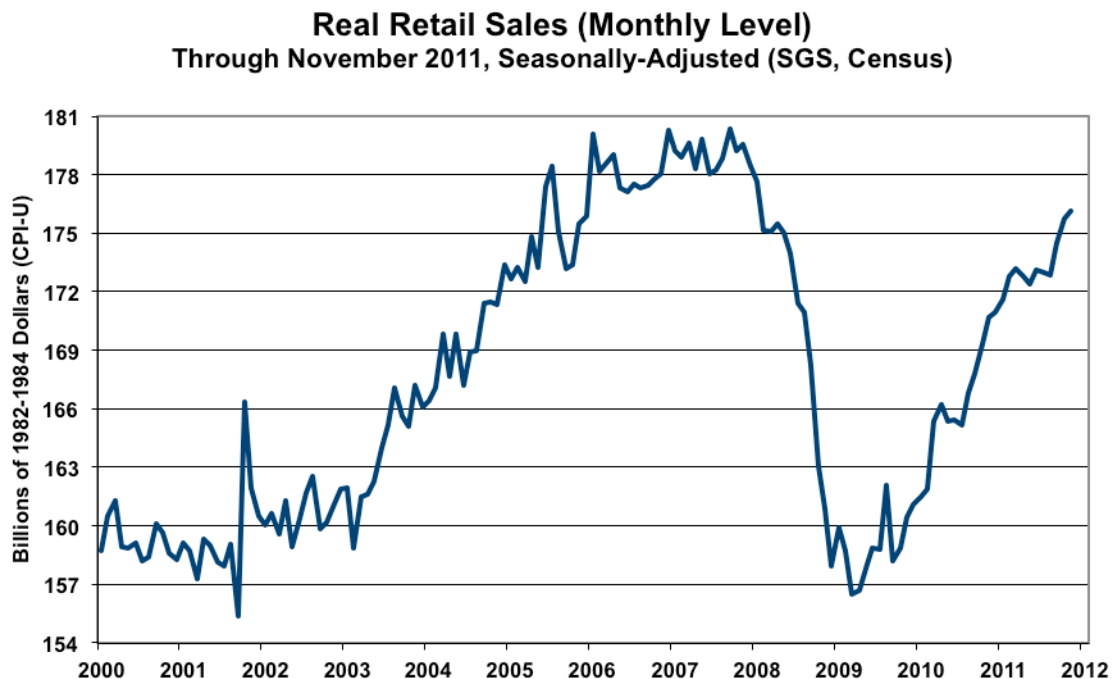
1980 silver price peak would be \$144 per troy ounce and would be \$506 per troy ounce in terms of SGS-Alternate-CPI-adjusted dollars (again, all series not seasonally adjusted).

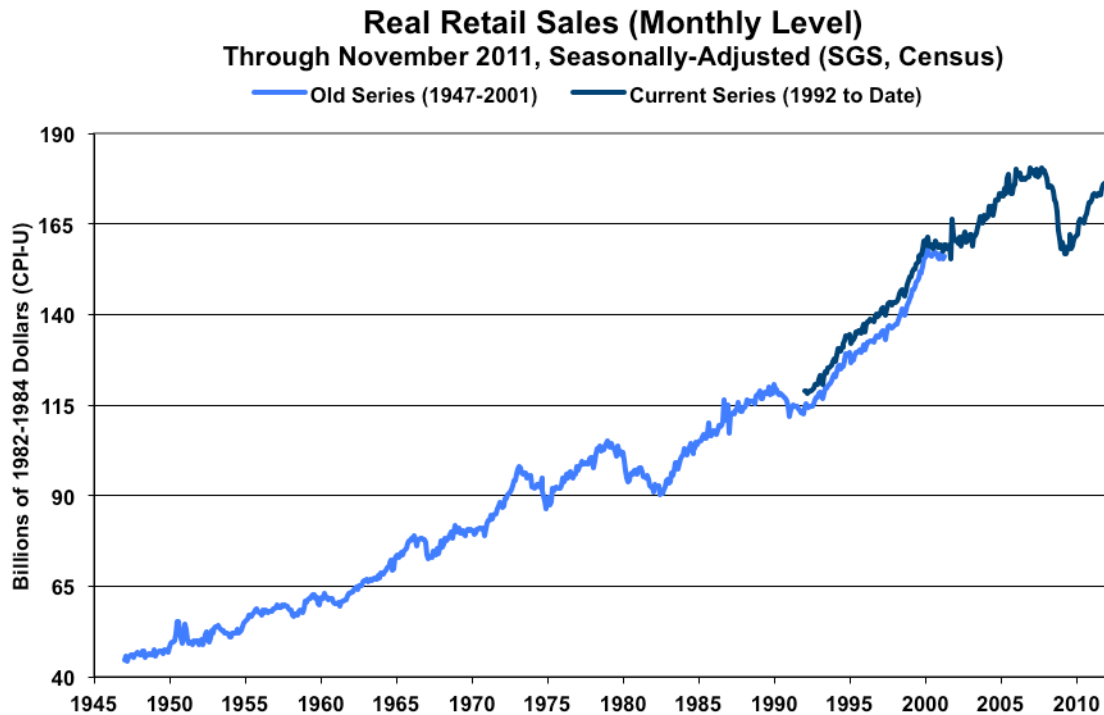
As shown on page 43 of the [Hyperinflation Special Report \(2011\)](#), over the decades, the price of gold has compensated for more than the loss of the purchasing power of the U.S. dollar as reflected by CPI inflation, while it has effectively fully compensated for the loss of purchasing power of the dollar based on the SGS-Alternate Consumer Price Measure (1980 Methodologies Base).

Real (Inflation-Adjusted) Retail Sales. Based on the November 2011 CPI-U reporting, inflation- and seasonally-adjusted November 2011 retail sales rose by 0.24% for the month, where, before inflation-adjustment, the current number was up by 0.22% (see [Commentary No. 406](#) for details of the nominal reporting). October real retail sales revised to a 0.70% (initially 0.62%) gain, where the nominal (not-adjusted-for-inflation) revised to a 0.61% (previously 0.54%) gain.

November's real retail sales rose at a slower year-to-year pace of 3.23%, versus a revised 3.80% (previously 3.56%) annual gain reported for October.

The ongoing “recovery” in real retail sales is reflected in the following graphs, which show the latest monthly levels of inflation- and seasonally-adjusted activity. The first of these shows close historical detail for the period beginning in 2000; the second shows the same data in historical context since World War II.

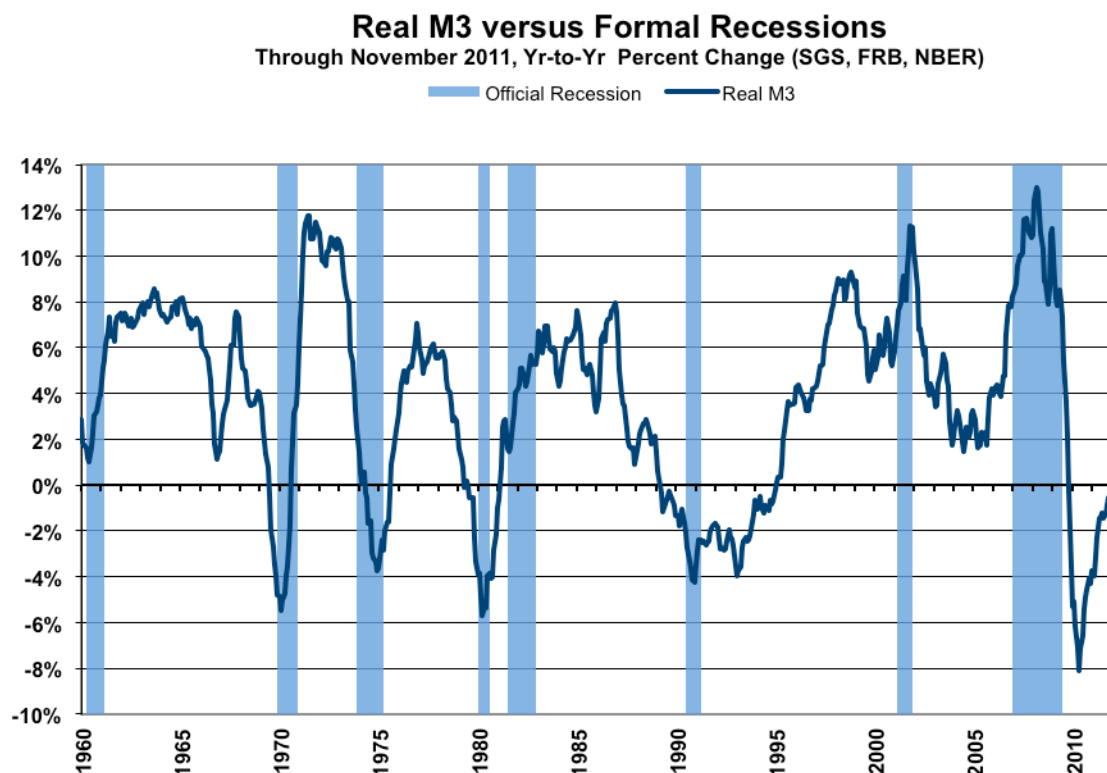




Using the SGS Alternate-CPI Inflation estimates for deflation of the retail series would not show an ongoing rise in activity for the last year or so, but rather an ongoing pattern of bottom-bouncing, as discussed in [Commentary No. 401](#) (see Inflation-Corrected Real Retail Sales—1990-based SGS estimate—graph on page 6). It has been my preference here and wherever otherwise possible, to use the official estimates (the series here is as calculated by the St. Louis Fed), since that eliminates a level of argument over what is being reported. As official consumer inflation picks up further, and as overall retail sales suffer from the ongoing consumer liquidity squeeze, these data should turn down meaningfully in what eventually will become a formal double-dip recession.

There has been no change in the underlying fundamentals. There is nothing that would support a sustainable turnaround in retail sales, personal consumption or in general economic activity. There is no recovery, just general bottom-bouncing. Accordingly, real retail sales levels in the months ahead should become increasingly negative (see the household and disposable income comments and the liquidity issues discussed in [Commentary No. 401](#) and in [Commentary No. 406](#)).

Real Money Supply M3. The signal of the unfolding double-dip recession, based on annual contraction in the real (inflation-adjusted) broad money supply (M3), discussed in the [Hyperinflation Special Report \(2011\)](#), continues and is reflected in the next graph. Based on the November CPI-U report and the latest November SGS-Ongoing M3 Estimate, the annual contraction in real M3 for November 2011 was 0.6%, narrower than the 0.9% annual contraction estimated for October. The smaller annual contraction in November was due to a combination of what still should prove to be a short-lived downside blip in the annual CPI-U inflation rate as well a small pick-up in annual M3 growth.



The signal for a downturn or an intensified downturn is generated when annual growth in real M3 first turns negative in a given cycle; the signal is not dependent on the depth of the downturn or its duration. The current downturn signal was generated in December 2009. The broad economy tends to follow in downturn or renewed deterioration roughly six-to-nine months after the signal. Weakness in a number of series have surfaced this year, and the downturn likely will accelerate in the months ahead, eventually leading to recognition of a double-dip recession.

PRODUCER PRICE INDEX—PPI (November 2011)

Monthly Wholesale Inflation Rose by 0.3% in November, Up 5.7% Year-to-Year. As reported yesterday, December 15th, by the Bureau of Labor Statistics (BLS), the regularly-volatile, seasonally-adjusted finished-goods producer price index (PPI) for November jumped by 0.3% (up by 0.1% unadjusted) month-to-month, following a month-to-month adjusted decline of 0.3% (down by 0.3% unadjusted) in October. November's monthly inflation pick-up reflected a jump in food prices, upside seasonal adjustments to softer finished energy goods prices, and a continued upside trend in prices in the broad economy outside the food and energy sectors.

Unadjusted and year-to-year, November 2011's PPI inflation eased to 5.7% from 5.9% in October. The relatively high level of annual PPI inflation generally still reflects ongoing impact of the Fed's dollar-debasement policies, not surging economic demand. Annual changes now are going against the year-ago

period when Mr. Bernanke was instituting QE2 and meeting with some early success in debasing the U.S. Dollar.

November finished goods inflation increasingly reflected ongoing inflation pressures from the spreading impact of higher oil prices outside the energy sector. The “core” finished goods inflation—net of food and energy inflation—rose to 2.9% year-to-year (unadjusted) in October from 2.8% in October and from 2.5% in September.

Separately, on a monthly basis, seasonally-adjusted November 2011 intermediate goods prices rose by 0.2%, versus a decline of 1.1% in October, with November crude goods prices up by 3.8%, following a 2.5% decline in October. Year-to-year inflation in unadjusted November intermediate goods was 7.7%, versus 8.3% in October, with November’s annual inflation in crude goods at 15.1%, versus October’s 12.6% pace.

INDEX OF INDUSTRIAL PRODUCTION (November 2011)

Industrial Production Dropped 0.2% in November. In the context of the usual six months worth of revisions, yesterday’s (December 15th) Federal Reserve Board release of seasonally-adjusted November 2011 industrial production showed a monthly decline of 0.22% (up 0.12% net of prior-period revisions) versus October. In turn, October showed a revised gain of 0.66% (previously 0.68%) versus September.

The drop in November’s production activity reflected weakening seasonally-adjusted production in the consumer sector, with a 5.5% monthly plunge in motor vehicles and a 1.8% monthly drop in communication equipment (*i.e.* cell phones).

Year-to-year growth in November 2011 production slowed to 3.74% from revised annual growth of 4.28% (was 3.92%) in October, and remained well off the recent relative peak annual growth of 7.75% in June 2010. The year-to-year contraction of 14.83% seen in June 2009, at the end of second-quarter 2009, was the steepest annual decline in production growth since the shutdown of war-time production following World War II.

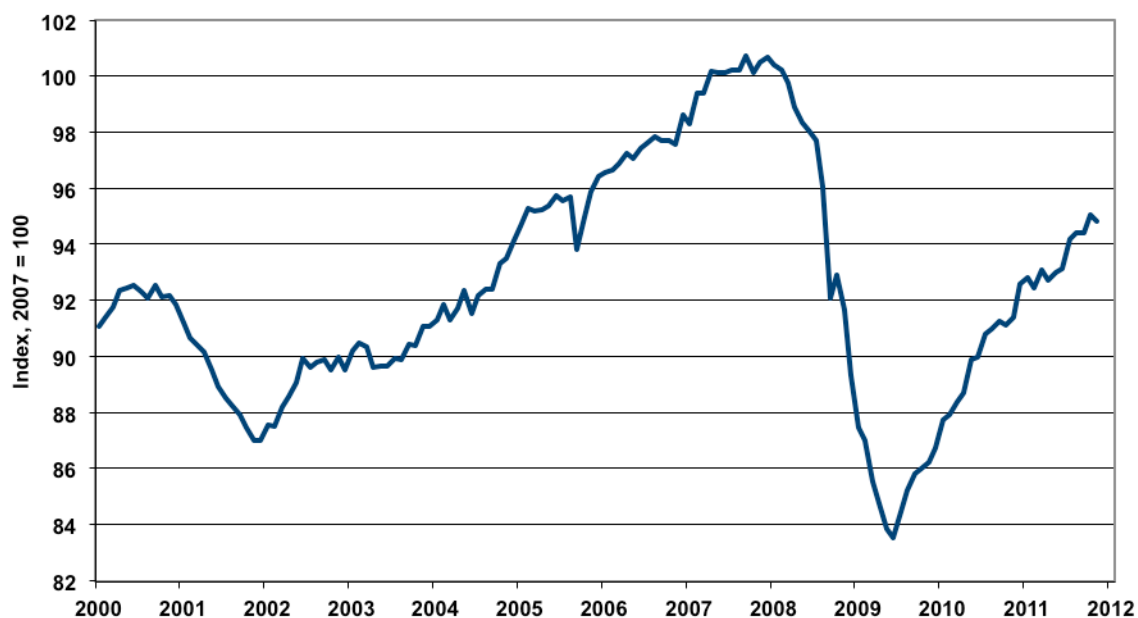
The “recovery” in industrial production is reflected in the graphs that follow. Both graphs show the monthly level of the production index. The first of these shows close historical detail for the period beginning in 2000, the second shows the same data in historical context since World War II.

Keep in mind that a portion of industrial production (largely high tech, such as computers) is estimated by deflating nominal (not-adjusted-for-inflation) numbers with inflation measures of a nature similar to those used in the GDP estimates. Where those inflation estimates are understated, the resulting inflation-adjusted production growth is overstated.

Officially, industrial production peaked in December 2007 (official onset of the recession) and currently is 5.8% below the prerecession peak. With a reasonable correction for understated inflation, my best estimate at present (a work-in-progress that will be addressed more fully and graphed in *Hyperinflation 2012*) is that production peaked in the first- or second-quarter of 2007, has been flattening out recently and currently stands about 12% below its pre-recession high.

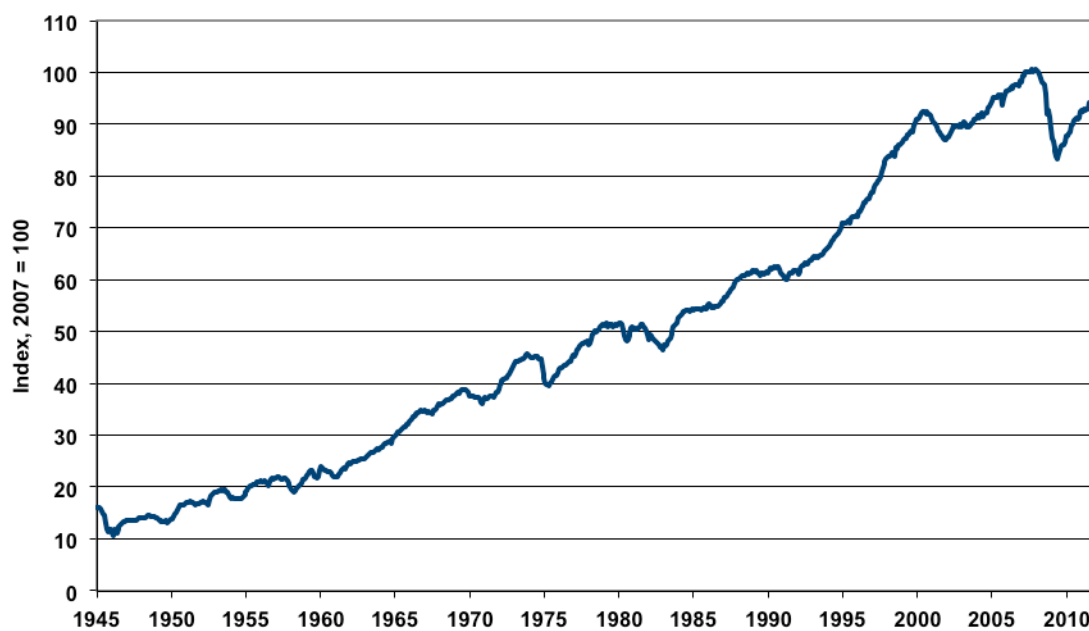
Index of Industrial Production (Monthly Level)

Through November 2011, Seasonally-Adjusted (FRB)



Index of Industrial Production (Monthly Level)

Through November 2011, Seasonally-Adjusted (FRB)



Week Ahead. Although receiving sporadic bursts of attention, an intensifying double-dip recession (it will be classified as a double-dip, because the first dip already has been called), as well as an escalating inflation problem still are not widely recognized. The political system would like to see the issues disappear until after the 2012 election, and the financial markets will do their best to avoid recognition of the problems that have horrendous implications for the markets and for systemic stability. Until such time as financial-market expectations move to catch up fully with underlying reality, or underlying reality catches up with the markets, reporting generally will continue to show higher-than-expected inflation and weaker-than-expected economic results in the months and year ahead. Increasingly, previously unreported economic weakness should show up in prior-period revisions.

Residential Construction (November 2011). November housing starts are due for release on Tuesday, December 20th. The downside bottom-bouncing trend there should continue. As usual, any upside movement likely would not be statistically meaningful.

Existing Home Sales (November 2011). November existing home sales are due for release on Wednesday, December 21, 2011. The big news will not be the estimate of month-to-month change in November home sales, but rather the magnitude and nature of downside revisions to prior history that already have been signaled by the issuing National Association of Realtors (NAR). Reports in the popular press indicate that the pending revisions will reflect major corrections to the historical series back to 2007 (addressing possible double-counting and inclusion of new home sales, among other issues).

Gross Domestic Product—GDP (Third-Quarter 2011, Third Estimate, Second Revision). Due for release on Thursday, December 22nd, the third estimate, second revision of third-quarter 2011 GDP should be little more than statistical noise around the previously reported headline growth estimate of 2.0%.

New Orders for Durable Goods (November 2011). November new orders for durable goods are due for release on Friday, December 23rd. While there appears to be some expectation of a monthly increase in orders, any gains are not likely to be outside the bounds of regular volatility for this series and its major components, such as aircraft orders.

New Home Sales (November 2011). November new home sales are due for release on Friday, December 23rd, and that series likely will continue its downside bottom-bouncing trend. As with almost all monthly reporting for this series, the monthly change—particularly any gain—should not be statistically meaningful.

2011 Financial Report of the United States Government. Release of the government's GAAP-based accounting tentatively had been (and still may be) re-scheduled for release sometime on Friday, December 23rd. As we go to press, though, the scheduled release date shown on the [Treasury's Web site](#) just was changed from the never-updated December 15th, to "TO BE DETERMINED." Rescheduling from the regular December 15th release in earlier years has incorporated delays of up to several months. Whenever it is released, the annual GAAP accounting on the financial operations of the U.S. government is likely to show an annual 2011 federal operating deficit in excess \$5 trillion, based on consistent reporting and accounting, including changes in unfunded liabilities (for Social Security, etc.) on a net present value (NPV) basis.