

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

COMMENTARY NUMBER 475
September Retail Sales

October 15, 2012

September Retail Sales Boosted by Inflation and Seasonal-Adjustment Issues

Economic Recovery Is Not Possible Without Consumer Liquidity Rebound

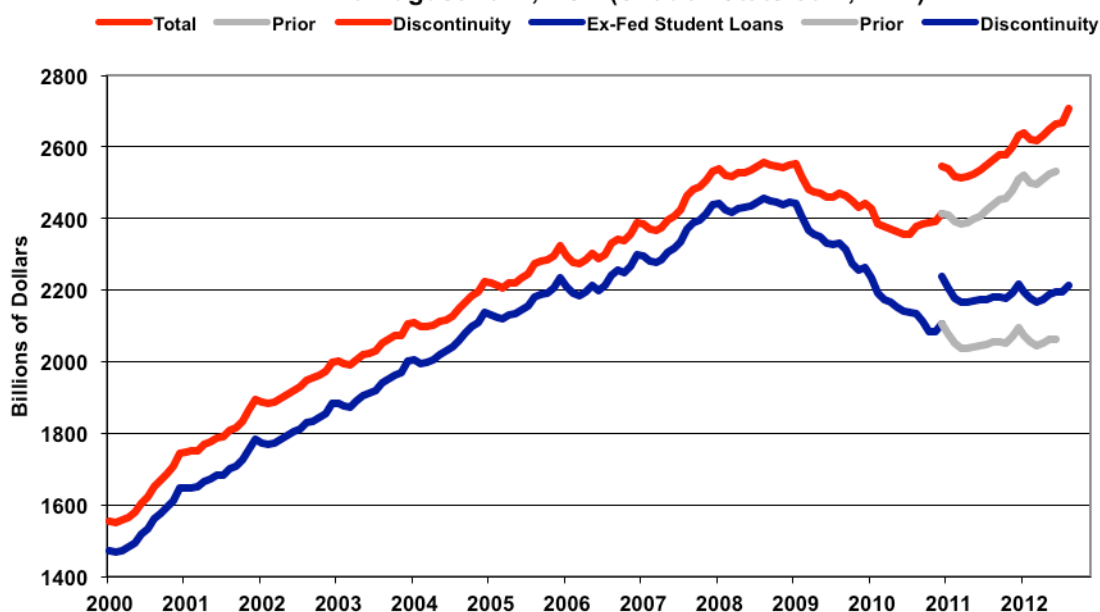
PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Tuesday, October 16th, covering September CPI, real retail sales, real earnings and industrial production, with a subsequent Commentary on Wednesday, October 17th, detailing September housing starts.

A Special Commentary reviewing economic, inflation and systemic conditions is planned for Monday, October 29th. It will include significant September-economic and third-quarter-GDP reporting, as well as detail on fiscal-2012 operations of the federal government. Any updates to timing of this missive will be advised in the schedule box on www.shadowstats.com.

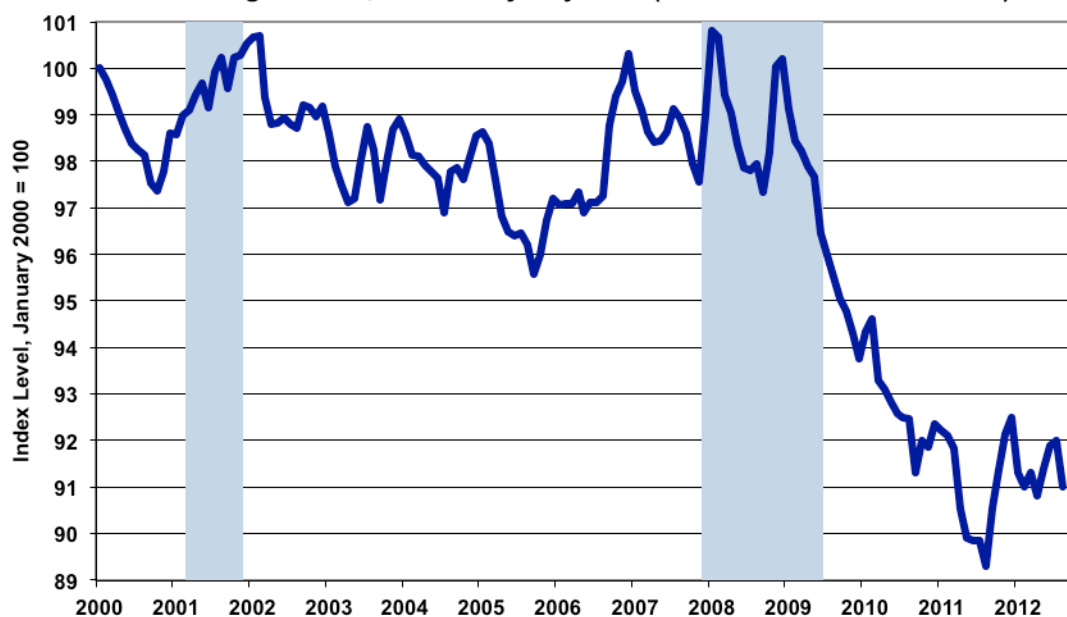
Best wishes to all — John Williams

Opening Comments and Executive Summary. September's headline 1.15% bounce in nominal (not adjusted for inflation) retail sales, and the upside revision to 1.16% growth in monthly August sales from initial reporting of a 0.89% gain, resulted from a combination of rising prices and distorted seasonal-factor adjustments that tended to boost current reporting. The inflation-adjusted detail will be reviewed on a monthly, quarterly and year-to-year basis in tomorrow's October 16th *Commentary*, covering the release of September CPI inflation numbers. A more complete analysis of the nominal September retail sales detail (including possible iPhone impact) is found in the *Reporting Detail* section.

**Consumer Credit Outstanding (with Discontinuities)
Total and Total Ex-Federal Student Loans
To August 2012, NSA (ShadowStats.com, FRB)**



**Real Median Household Income Index (Monthly Level)
To August 2012, Seasonally-Adjusted (www.SentierResearch.com)**



Consumers Remain Trapped in a Liquidity Bind. The chances for sustainable, real (inflation-adjusted) gains in retail sales remain nil, where consumers lack adequate income growth and credit availability to fund ongoing increases in real consumption. Those issues are suggested in the two preceding graphs.

The first graph reflects the Federal Reserve's heavily-lagged and poor-quality release on nominal consumer-credit outstanding, through August 2012, as published October 5th. The reporting patterns continue to show that all growth in consumer credit, since credit began collapsing in 2008, has been in Federal student loans. Other consumer credit, which usually would be used to fund consumption, such as retail sales, has been sinking or bottom-bouncing since the banking crisis began.

The second graph reflects real (inflation-adjusted) median household income, through August 2012, as published by www.SentierResearch.com. The graph is as previously published, but it is included here for the convenience of easy reference.

Real median household income on an annual basis is at a level below where it was in the late-1960s and early-1970s (see [Commentary No. 469](#)), while the monthly detail shows current reporting to be near the worst level of the post-2008 panic. Without positive real income growth, consumers cannot sustain or support positive real growth in consumption or GDP. While debt expansion—as advocated heavily by former Federal Reserve Chairman Alan Greenspan—had provided a short-term reprieve for consumers from their declining living standards, that debt expansion no longer is available in the post-panic era.

Accordingly there has been no economic recovery, as purported in GDP reporting, and the chances of an economic rebound remain nil, until impaired consumer liquidity is resolved.

Hyperinflation Watch—Outlook Unchanged, Broad Outlook to Be Revised in Upcoming *Special Commentary*. The nature and implications of QE3—announced recently by the FOMC of the Federal Reserve Board—were discussed in the *Opening Comments* of [Commentary No. 470](#). Specifically, while general circumstances have continued to advance towards the ultimate demise of the dollar, the general outlook is unchanged. While QE3 is an enabling action for the onset of massive inflation, the outside timing of 2014 for the ShadowStats.com hyperinflation forecast remains in place. The hyperinflation outlook will be reviewed and updated fully in the *Special Commentary* scheduled for October 29th. The following summary of the broad outlook has not been changed since the September 14th *Commentary*.

The detail in [Special Commentary No. 445](#) (June 12th) updated the hyperinflation outlook and the outlook for U.S. economic, U.S. dollar, and systemic-solvency conditions. That Special Commentary supplemented [Hyperinflation 2012](#) (January 25th), which remains the primary missive detailing the hyperinflation story. Those reports are suggested as background reading for new subscribers.

Official GDP reporting shows plunging economic activity from fourth-quarter 2007 to second-quarter 2009, with an ensuing upturn in activity that has led to a full recovery as of fourth-quarter 2011, and that “recovery” has continued through second-quarter 2012 GDP reporting.

In contrast to the GDP reporting—and in line with patterns seen in better-quality economic series—I contend that the economy began turning down in 2006, plunging in 2008 into 2009 and subsequently stagnating—bottom-bouncing—at a low level of activity, ever since. There has been no recovery since mid-2009, and the economic downturn now is intensifying once again. The renewed slowdown is evident

in the current reporting of nearly all major economic series. Not one of those series shows a pattern of activity that confirms the full recovery shown in the GDP series.

Federal Reserve Chairman Ben Bernanke has observed that broad aggregate measures of the U.S. economy, such as GDP, do not appear to be reflecting the common experience of the general public. Indeed, common experience suggests that the economy has not recovered. The official recovery simply is a statistical illusion created by the government's use of understated inflation in deflating the GDP, which overstates deflated economic growth, as discussed in [Commentary No. 467](#), [Special Commentary No. 445](#), and [Public Comment on Inflation](#).

The long-term fiscal solvency issues of the United States—where GAAP-based accounting shows annual deficits running in the \$5 trillion range—are not being addressed, and the politicians currently running the government lack the political will to address those issues. That circumstance initially suggested a hyperinflation crisis by the end of this decade, but federal government and Federal Reserve actions—in response to the systemic-solvency crisis of 2008—accelerated the process, suggesting a hyperinflation problem by no later than the end of 2014. The continuing economic downturn is intensifying the fiscal- and systemic-solvency problems, and public awareness of this should grow rapidly in the months ahead.

Neither economic nor systemic-solvency issues have been resolved by U.S. government or Federal Reserve actions, and the most recent readings on income variance suggest that the worst is yet to be seen, as discussed in [Commentary No. 469](#).

With the economy weak enough to provide political cover for further Federal Reserve accommodation to the still-struggling banking system, QE3 was introduced on September 13th. That action effectively provided for open-ended monetization of U.S. Treasury debt at the Fed's discretion. The mechanism for eventual full debasement of the dollar now is in place, and it likely will come into full play, as needed to support the banking system and as needed to assure “successful” auctions of Treasury debt.

QE3 likely will lead to a massive dollar-selling crisis, and that will begin the process of a rapid upturn in domestic consumer inflation. A near-term dollar-selling crisis is now of a much greater risk, post-QE3. Separately, though, a dollar-selling crisis could begin at any time, triggered by various economic, sovereign-solvency or political issues. With the guidelines set for QE3, even negative employment reports could trigger massive dollar selling.

REPORTING DETAIL

RETAIL SALES (September 2012)

Retail Sales Headline Growth Dominated by Inflation and Seasonal-Factor Issues. The headline gain in September retail sales largely was in prices, as will be explored in some detail following tomorrow's (October 16th) publication of the September 2012 CPI-U. Otherwise, this series suffers distortions similar to the nonfarm payrolls and the unemployment rate seen with the use of unstable and highly volatile concurrent seasonal adjustment factors (see the discussion in [Commentary No. 473](#)). At present, shifts in the adjustment patterns that are not otherwise published by the Census Bureau, appear to be boosting the reported levels of adjusted activity.

There has been some touting of iPhone sales as a factor in the September sales gain, and that may well have been the case. If so, as an irregular event, it would have been exaggerated in the numbers by seasonal factors. Given the tightness of consumer liquidity, however, iPhone sales more likely supplanted some of what otherwise would have been regular consumption during the month.

The chances for sustainable, real (inflation-adjusted) gains in retail sales remain nil, where the consumer lacks adequate income growth and credit availability to fund ongoing increases in real consumption, as discussed in the *Opening Comments and Executive Summary*.

Note: The stability of the seasonal-adjustment process (particularly the concurrent seasonal-adjustment process used with retail sales) and of sampling methods has been disrupted severely by the unprecedented depth and length of the current economic downturn in the post-World War II era (the period of modern economic reporting).

Under such circumstances, where the markets effectively are flying blind as to actual economic activity, consideration of broad underlying fundamentals is essential. Consumer income and credit remain structurally impaired, as discussed recently in [Hyperinflation 2012](#), [Special Commentary No. 445](#), and [Commentary No. 469](#). As will be updated in the forthcoming October 29th Special Report, those factors continue to signal economic deterioration, not recovery, with the broad economy remaining in serious trouble.

Nominal (Not-Adjusted-for-Inflation) Retail Sales. Today's (October 15th) report on September 2012 retail sales—issued by the Census Bureau—indicated a statistically-significant, seasonally-adjusted monthly gain of 1.15% (rounds to 1.1%) +/- 0.6% (all confidence intervals are at the 95% level), and it was up by 1.52% before prior period revisions. The September gain followed a revised 1.16% (previously 0.89%) gain in August.

Year-to-year September 2012 retail sales growth was 5.37% +/- 0.8%, where year-to-year growth for August was revised to 5.02% from the previously-reported 4.67%.

Core Retail Sales. In September, monthly grocery-store sales rose by 1.03%, while gasoline-station sales rose by 2.49%. 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: September 2012 versus August 2012 seasonally-adjusted retail sales series—net of total grocery store and gasoline station revenues—was up by 0.97%, versus the official gain of 1.15%.

Version II: September 2012 versus August 2012 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—was up by 0.75%, versus the official 1.15%.

Real (Inflation-Adjusted) Retail Sales. The inflation-adjusted monthly, quarterly and annual retail sales as of September 2012 will be reported and assessed following the release of September CPI-U reporting, tomorrow, October 16th. As discussed in the *Week Ahead*, monthly CPI inflation reporting likely will be above consensus and account for much of today’s reported gain in nominal retail sales.

Again, 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.

Week Ahead. As noted in [Commentary No. 474](#), public speculation as to political manipulation of labor-related data, produced by the Department of Labor, has hit a level of activity that is unprecedented. Whether or not manipulations have taken place with current reporting, supporting evidence either way likely will be forthcoming in the year ahead. Upcoming, initial reporting of third-quarter GDP on October 26th and the October labor report on November 2nd—in the two weeks before the election—would be likely manipulation targets, if the data indeed were being massaged. In any event, any numbers that are far removed from common experience will tend to be viewed by the public with extreme skepticism.

Nonetheless, market recognition of an intensifying double-dip recession has taken stronger hold, while recognition of a mounting inflation threat has been rekindled a bit by recent Fed monetary policy announcements and rising headline inflation numbers. The political system would like to see the issues disappear until after the election; the media does its best to avoid publicizing unhappy economic news or, otherwise, it puts a happy spin on the numbers; and the financial markets do their best to avoid recognition of the problems for as long as possible, problems that have horrendous implications for the markets and for systemic stability, as discussed in the *Hyperinflation Watch* section.

Until such time as financial-market expectations catch up fully with underlying reality, or underlying reality catches up with the markets—shy of manipulated data—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 continue to show up in prior-period revisions.

Consumer Price Index—CPI (September 2012). The release by the Bureau of Labor Statistics (BLS) of the September 2012 CPI numbers is scheduled for tomorrow, Tuesday, October 16th. The headline CPI inflation rate is due for another sharp jump on both a monthly and annual basis, reflecting rising energy,

food and “core” inflation, with headline inflation reporting likely stronger than market expectations, which appear to have settled at about 0.5%.

Of particular import, unadjusted monthly average gasoline prices rose by 3.4% in September 2012 (Department of Energy). Consider that September seasonal-adjustment factors tend to boost energy price inflation, where an unadjusted 0.7% monthly decline in September 2011 gasoline prices was turned into a 2.9% increase by the seasonal adjustments of that month. The contribution of gasoline prices to the September headline CPI inflation should be significant and also could pick up some of August’s inflation understatement.

Year-to-year total CPI-U inflation would increase or decrease in September 2012 reporting, dependent on the seasonally-adjusted monthly change, versus the 0.27% gain in the adjusted monthly level reported for September 2011. I use the adjusted change here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for September 2012, the difference in September’s headline monthly change (or forecast of same) versus the year-ago monthly change should be added to or subtracted directly from the August 2012 annual inflation rate of 1.69%. A headline gain above 0.6%, for example, would push annual inflation up to above 2.0%.

Industrial Production (September 2012). Also due for release tomorrow, Tuesday, October 16th, by the Federal Reserve, the headline September 2012 industrial production number is likely to show a headline decline, coming in below market expectations. These numbers, however, are subject to massive and irregular revisions that can distort the latest month’s reporting. That said, the ISM’s purchasing managers survey has shown an outright contraction in both August and September production, and continued contraction is likely, as excess inventories are worked off.

Residential Construction (September 2012). Detail on September housing starts is due for release on Wednesday, October 17th, by the Census Bureau. In the wake of a 75% collapse in activity from 2006 through 2008, the ensuing four-year pattern of housing starts stagnation at an historically low level of activity continues, with no fundamental shift likely in the near future, including the just-passed September. As has become the standard circumstance here, any reported monthly gain likely would not be statistically significant.
