John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 482
October CPI, PPI, Retail Sales, Real Earnings

November 15, 2012

Official Real Retail Sales Signal Recession

Storm's Impact on October Activity Was Mixed

Official Real Earnings Sink to Four-Year Low,
Down 2.7% Year-to-Year

Annual Consumer and Wholesale Inflation Continue to Rise

October Year-to-Year Inflation: 2.2% (CPI-U), 2.2% (CPI-W), 9.8% (SGS)

PLEASE NOTE: The next regular Commentary *is scheduled for tomorrow, Friday, November 16th, covering October industrial production.*

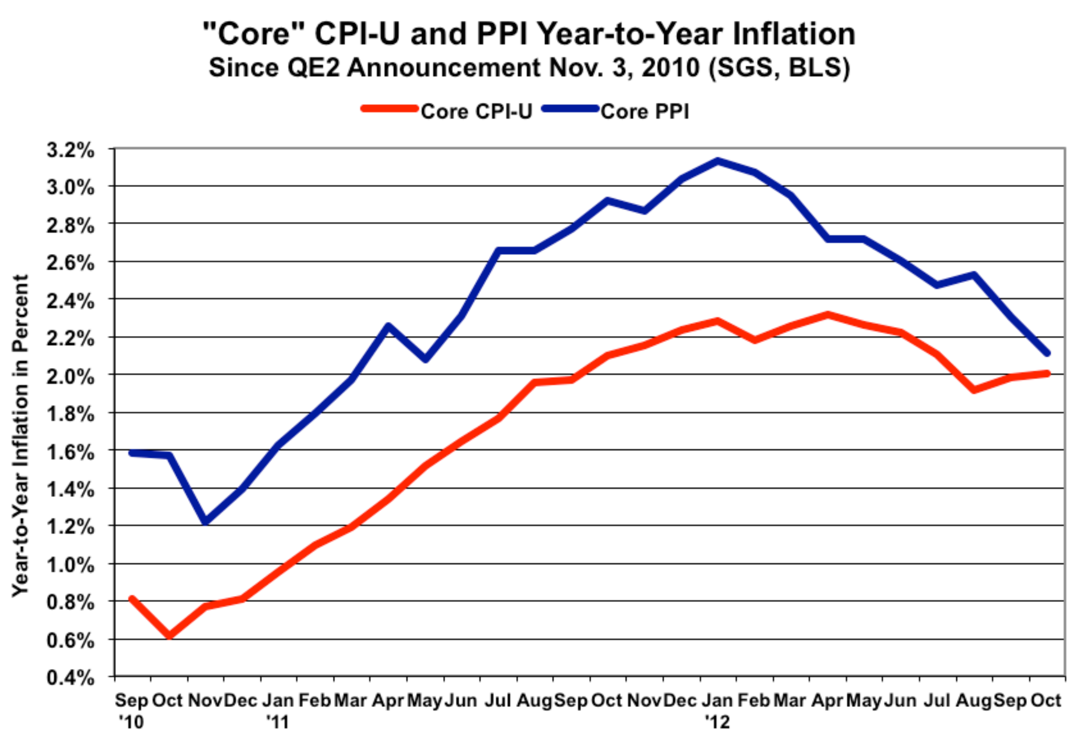
The long-promised Special Commentary *is near completion. When the publication date is certain, that will be indicated in the schedule box in the top left-hand column of www.ShadowStats.com. This* Commentary *will update the broad economic, systemic and inflation outlooks, in the context of the 2012 election and the latest detail on the economy, federal government fiscal operations, and Federal Reserve monetary activities.*

Best wishes to all — John Williams

Opening Comments and Executive Summary. Annual inflation remains on the rise, while recent economic releases have started to surprise market expectations on the downside, again. Adjusted for inflation, both October retail sales and average weekly earnings were suggestive of a re-intensifying economic downturn.

Unfolding developments remain well within the broad outlook discussed in *Hyperinflation 2012*. Though generally unchanged, the key components of that outlook will be reviewed and updated fully in the *Special Commentary*. Specifically, those components cover the continuing economic and systemic solvency crises, and the intractable circumstances impairing the regular functioning of the Federal Reserve and the federal government. The latter issues reflect the Federal Reserve having opted to save the financial system in the short-term, at the cost of an ultimate, hyperinflationary collapse of the U.S. dollar; and the federal government having so bankrupted itself that it has no practical option for funding its commitments other than to fuel an ultimate, hyperinflationary collapse of the U.S. dollar.

A Continuing Rise in Annual Inflation. Headline October CPI-U monthly inflation rose by 0.15% for the month, with the finished-goods PPI declining by 0.15%, both in the context of weaker oil prices and declining gasoline prices. Nonetheless, annual inflation rates continued to rise. On the consumer side, year-to-year inflation rose from 1.99% in September to 2.16% in October for the CPI-U. Parallel moves were seen in the other series with CPI-W up by 0.13% for the month, with annual inflation increasing from 2.01% in September to 2.21% in October. Adjusted to pre-Clinton (1990) methodology, annual SGS-Alternate CPI inflation rose from roughly 5.5% in September to 5.6% in October, while the 1980-based measure rose from about 9.6% in September to 9.8% in October.



<u>Core Inflation.</u> Inflationary pressures from still broadly higher oil prices have continued to spread in the general economy, as shown in the accompanying graph, which has tracked the impact of QE2 on "core" inflation, inflation net of direct food and energy inflation. High oil prices, however, still have significant, longer-range indirect inflationary impact on the general economy, as mirrored in rising core inflation.

Based on likely market reaction to the implementation of QE3, new inflationary impact should surface in the aggregate and core numbers in the months ahead. Mr. Bernanke has been running on some early steam from his jawboning of QE3, and actual the policy announcement of same, so far. The post-jawboning and post-election period should see the Fed move to monetize significant amounts of debt.

As reflected in the graph, October 2012 year-to-year CPI-U core inflation moved minimally higher to 2.00%, versus 1.98% in September. In contrast, the PPI annual core inflation continued moving somewhat lower in October, to 2.11%, versus 2.30% in September.

Real Average Weekly Earnings Plummet. Real (inflation-adjusted, CPI-W) average weekly earnings for production and nonsupervisory employees tumbled month-to-month by 0.5% in October. Before inflation adjustment, earnings still were down by 0.3% for the month. On a year-to year basis, real October 2012 earnings fell by 2.7%.

Average weekly earnings in October 2012 were $664.94 in current dollars, or $290.90 as converted to, or inflation adjusted to, 1982-84 dollars. The difference there reflects an official 56.3% loss of purchasing power in the U.S. dollar since President Ronald Reagan's first term. Adjusted to constant dollars, net of inflation effects, the average weekly earnings level in October 2012 was down by 2.9% from its recent October 2010 high, and was at its lowest level since October 2008.

As plotted in the graph in the *Reporting Detail* section, real average weekly earnings peaked in the early 1970s, based on official reporting and CPI-W inflation adjustment. That graph also shows the earnings deflated by the more-severe inflation pace reflected in the SGS-Alternate Inflation Measure (1990-Base).

Retail Sales Stumble Amidst Downside Revisions and a Signal for Intensifying Economic Contraction. The reported 0.31% decline in monthly October retail reflected consumption that was impaired by the intensifying liquidity squeeze on the consumer. Also, falling prices reduced the dollar sales volume of gasoline. As to storm impact, the Census Bureau would not estimate the effects of Hurricane Sandy, but the net effect on aggregate sales activity likely was small.

Regional business activity was disrupted heavily by the hurricane, during the last three days of October, but there were offsets. With the "super storm" predicted well in advance, significant stocking purchases of food, gasoline and other supplies, including emergency equipment, plywood and other preparatory and protective measures preceded the storm's making landfall in New Jersey. Negative impact on reported retail sales could be more significant with November's data.

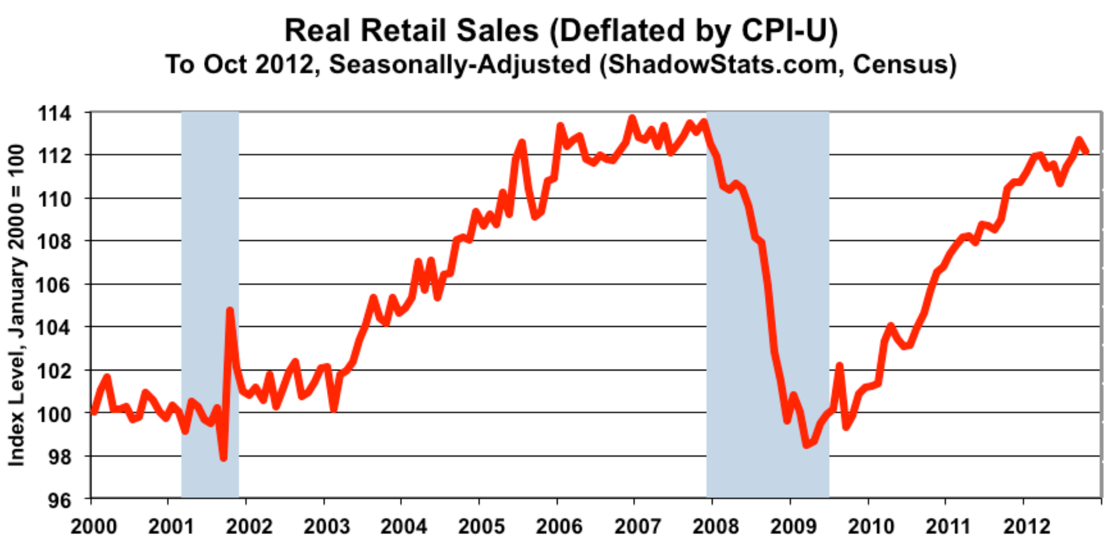
Net of official CPI-U inflation, real monthly retail sales fell by 0.45% in October, with year-to-year growth slowing to 1.61%, below the threshold level that traditionally has signaled pending recessions during normal business cycles.

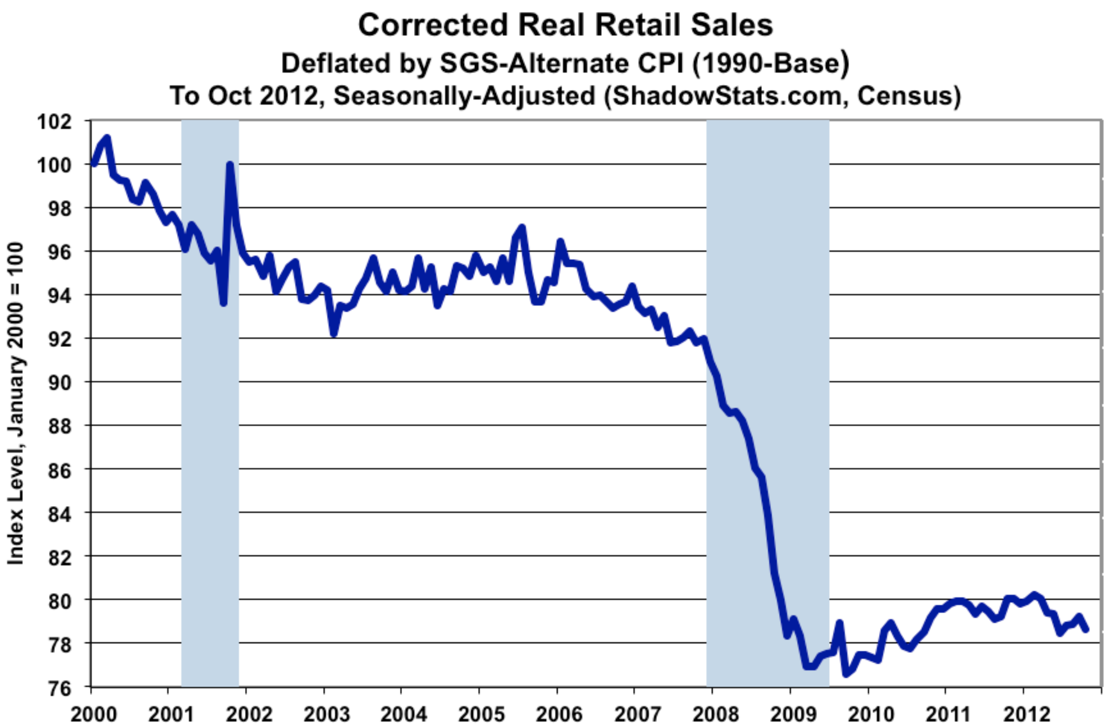
The chances for sustainable, real (inflation-adjusted) gains in retail sales remain nil, where the consumer lacks adequate income growth and credit availability to fund ongoing increases in real consumption (see *Commentary No. 469*). The official recovery is a statistical illusion (as was discussed in *Commentary No. 478* and as will be updated in the *Special Commentary*). Accordingly, the "recession" signal could be taken as a signal for a re-intensification of the economic downturn.

October reporting included downside revisions to August and September retail sales levels, with annualized real quarterly growth in third-quarter sales slowing in revision to 2.9%, from an initial 3.2%, as a result. That should place some downside pressure on the November 29th first-revision to the third-quarter 2012 GDP estimate.

Inflation-Corrected Retail Sales. The first graph following reflects real retail sales as reported by the St. Louis Fed and as deflated by the CPI-U. The CPI-U, however, understates inflation (see the *Public Comment on Inflation*), with the effect of overstating the inflation-adjusted growth.

Instead of being deflated by the CPI-U, the "corrected" real numbers in the second graph use the SGS-Alternate Inflation Measure (1990-Base) for deflation. As discussed in *Hyperinflation 2012* and *Special Commentary No. 445*, with the higher inflation of the SGS measure, the revamped numbers suggest that the recent topping-out process now has reverted to renewed decline, in a series that has been bottom-bouncing along a low-level plateau of economic activity in the period following the economic collapse of 2006 into 2009. The two charts are indexed to a consistent scale.

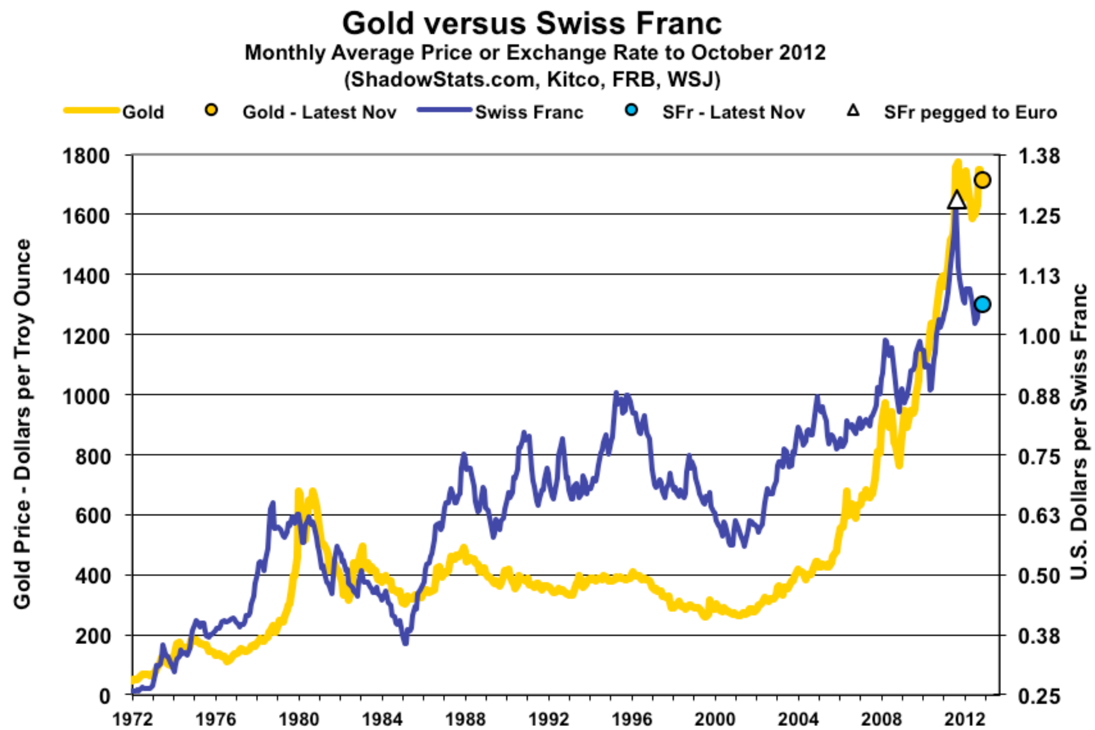


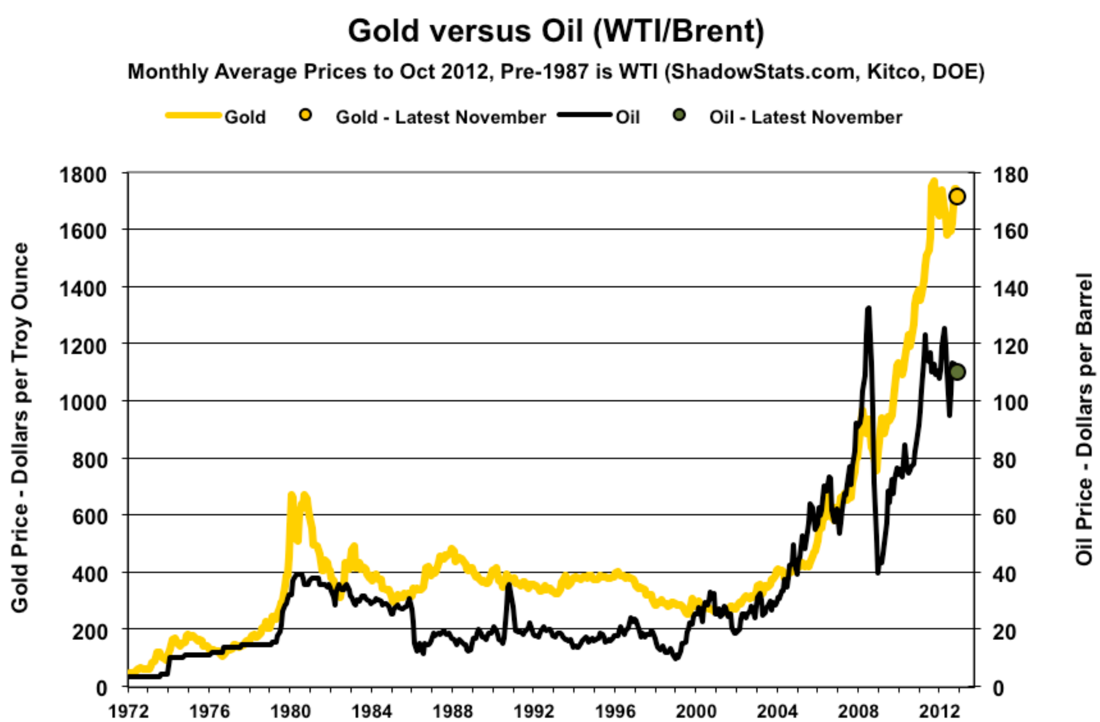


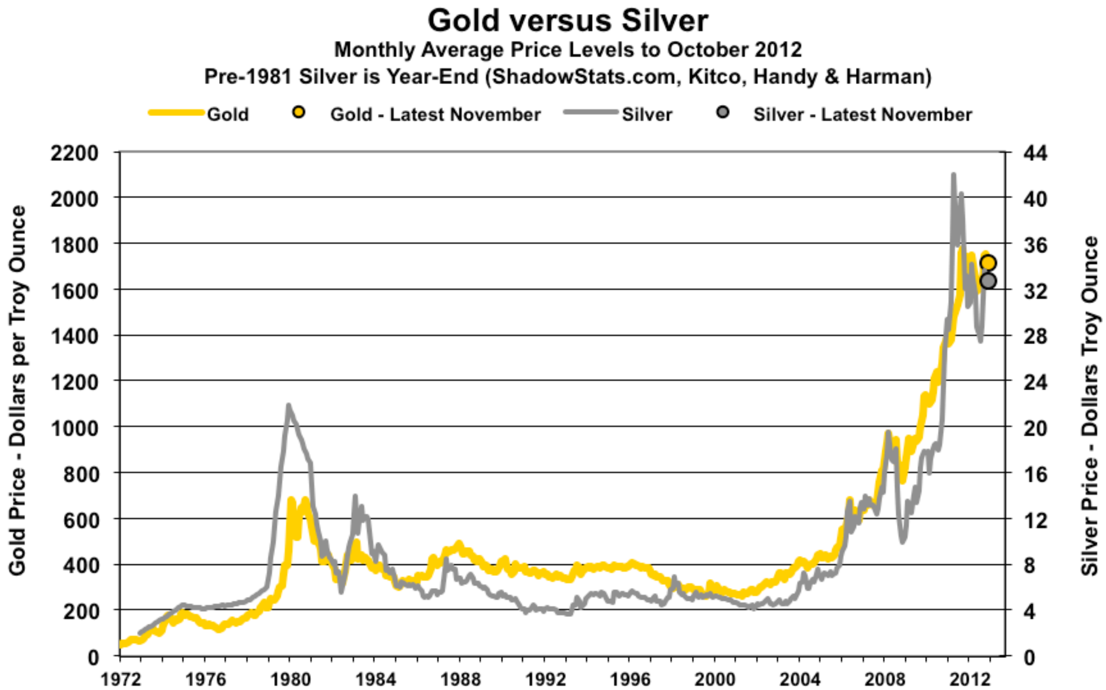
[More complete details on the reporting of October retail sales, CPI and PPI, along with real earnings are found in the* Reporting Detail *section.]

Hyperinflation Watch—Update Pending. The broad outlook has not changed from that outlined in *Hyperinflation 2012*, but it will be updated fully in the pending *Special Commentary*. For new subscribers and for anyone else not familiar with my general outlook, the recent summary in the *Hyperinflation Watch* section of *Commentary No. 479*, and particularly the hyperinflation report (linked above) are suggested as background material.

Gold Prices versus Swiss Franc, Oil and Silver. With escalating political tensions in the Middle East and a near-term fiscal-negotiation crisis looming in the United States, key commodity prices and currency exchange rates will be subject to potentially high volatility in the near-term. The U.S. fiscal fiasco will be covered in detail in the *Special Commentary*. The "fiscal cliff" is but a minor dip in road ahead. The graphs of the gold price versus the Swiss franc, oil and silver, that usually accompany the CPI *Commentary*, follow.


Gold versus Swiss Franc
Monthly Average Price or Exchange Rate to October 2012
(ShadowStats.com, Kitco, FRB, WSJ)
Gold
Gold - Latest Nov
Swiss Franc
SFr - Latest Nov
SFr pegged to Euro
Gold Price - Dollars per Troy Ounce
U.S. Dollars per Swiss Franc
1800
1600
1400
1200
1000
800
600
400
200
0
1.38
1.25
1.13
1.00
0.88
0.75
0.63
0.50
0.38
0.25
1972
1976
1980
1984
1988
1992
1996
2000
2004
2008
2012


Gold versus Oil (WTI/Brent)
Monthly Average Prices to Oct 2012, Pre-1987 is WTI (ShadowStats.com, Kitco, DOE)
Gold
Gold - Latest November
Oil
Oil - Latest November
Gold Price - Dollars per Troy Ounce
Oil Price - Dollars per Barrel
1800
1600
1400
1200
1000
800
600
400
200
0
180
160
140
120
100
80
60
40
20
0
1972
1976
1980
1984
1988
1992
1996
2000
2004
2008
2012



REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (October 2012)

Despite Lower Energy Prices, Annual Inflation Rose Again In October. The Bureau of Labor Statistics (BLS) reported higher year-to-year inflation for October 2012, on both the consumer and wholesale side. Annual inflation rose to 2.2% for the CPI-U, from 2.0% in September, and to 2.3% for finished-goods PPI, up from 2.1% in September. The increase in annual inflation was despite monthly contractions in energy-related prices, with a minimal 0.1% headline gain in monthly CPI-U inflation, and a 0.2% headline contraction in monthly PPI.

Weaker gasoline prices have prevailed so far in November, but that circumstance likely will prove to be short-lived. The U.S. fiscal crisis and attempts at intensified systemic liquefaction by the Fed should result in significant dollar weakness. Along with continuing crises in the Middle East, a weaker dollar would tend to spike oil and energy-related prices.

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Notes on Different Measures of the Consumer Price Index

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

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

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

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

*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.*

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CPI-U. The BLS reported today (November 15th) that the headline, seasonally-adjusted CPI-U for October 2012 rose by 0.15%—a rounded 0.1%—for the month. Unadjusted, the monthly CPI-U was virtually flat, down by 0.04%. That October number followed an adjusted September monthly increase of 0.57% (0.45% unadjusted).

A decline in gasoline prices was muted somewhat by seasonal adjustments. Unadjusted monthly average gasoline prices declined by 2.1% in October, per the BLS (down by 2.5% per the more-comprehensive surveying of the Department of Energy). Seasonal-adjustments, however, narrowed the price decline to 0.6%. In October 2011, an unadjusted 4.3% monthly decline in gasoline prices became a 3.1% decline, after seasonal adjustments.

Unadjusted, October 2012 year-to-year CPI-U inflation increased to 2.16%, from 1.99% in September.

Year-to-year, CPI-U inflation would increase or decrease in next month's November 2012 reporting, dependent on the seasonally-adjusted monthly change, versus the 0.09% gain in the adjusted monthly level reported for November 2011. I use the adjusted change here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for November 2012, the difference in November's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the October 2012 annual inflation rate of 2.16%.

Nineteen of the last twenty-three months have shown rising year-to-year, or annual, "core" CPI-U inflation (net of food and energy inflation), including the October 2012 year-to-year core rate of 2.00%, which was up minimally versus a 1.98% annual rate in September. Still, the October's annual core rate remained off April's cycle-high of 2.31%. In contrast, the PPI annual core inflation turned somewhat lower in October, to 2.11%, from 2.30% in September.

The October CPI core rate still was well above the core inflation of 0.61%, in November 2010, when Mr. Bernanke introduced QE2 in a successful bid to debase the U.S. dollar, with the effect of spiking oil prices. The introduction of QE3 should create some renewed upside pressures here, but those pressures will intensify markedly as the Fed's renewed debt monetization fully gets underway. The core annual inflation numbers for both the CPI-U and PPI reflect the ongoing impact of higher energy prices in the broad economy (see the graph and comments in the *Opening Comments and Executive Summary)*.

CPI-W. The headline seasonally-adjusted CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose by 0.13% (down by 0.09% unadjusted) for the month, versus a seasonally-adjusted 0.67% (0.50% unadjusted) gain in September.

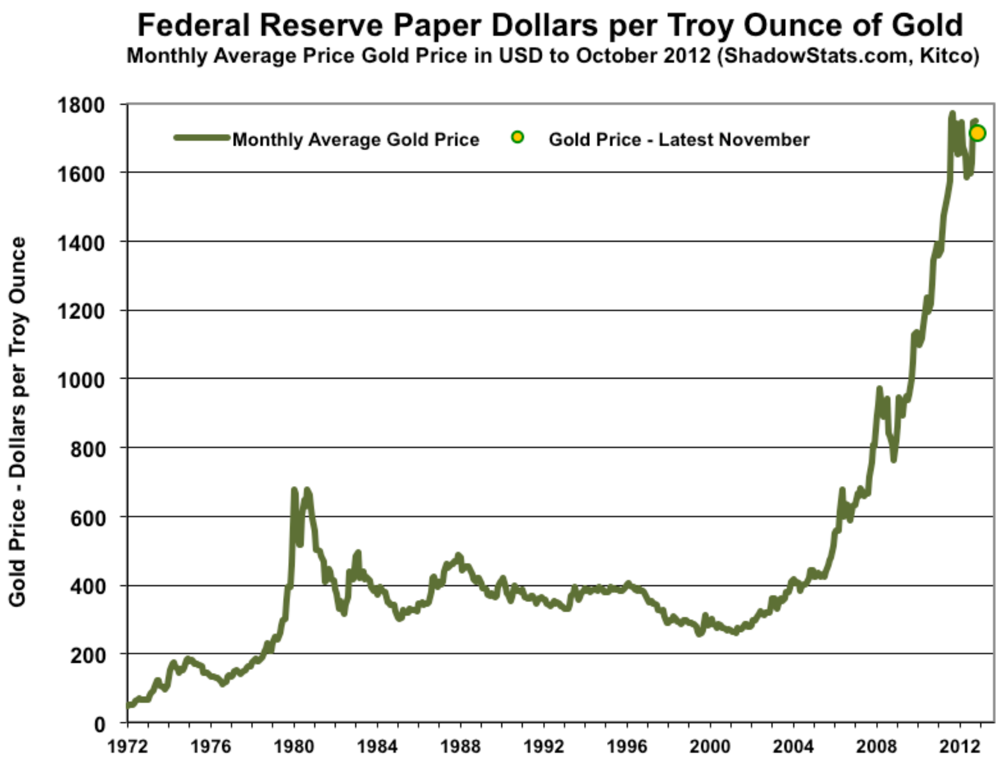
Unadjusted, October 2012 year-to-year CPI-W inflation was 2.21%, versus 2.01% in September.

C-CPI-U. Year-to-year inflation for the September 2012 C-CPI-U was 1.87%, versus 1.72% in September.

Note: The chain-weighted CPI-U is the fully substitution-based series that gets touted as a CPI replacement by inflation apologists and by those who oppose use of the existing CPI-U and CPI-W, including a number of politicians looking to cut deficit spending by using the C-CPI-U to reduce Social Security annual cost of living (COLA) adjustments artificially. The series is reported only on an unadjusted basis and is revised annually for the prior two years, unlike the unadjusted CPI-U, which never is revised, except for outright calculation errors.

Alternate Consumer Inflation Measures. Adjusted to pre-Clinton (1990) methodology, annual CPI inflation was roughly 5.6% in October 2012, versus 5.5% in September. The SGS-Alternate Consumer Inflation Measure, which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was about 9.8% (9.82% for those using the extra digit) in October 2012, versus 9.6% in September.

Note: 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 of 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. (See the* Public Commentary on Inflation Measurement *for further detail.)*



Gold and Silver Highs Adjusted for CPI-U/SGS Inflation. 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 $2,527 per troy ounce, based on October 2012 CPI-U-adjusted dollars, and $9,548 per troy ounce, based on October 2012 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 in 2011, still has not been hit since 1980, including in terms of inflation-adjusted dollars. Based on October 2012 CPI-U inflation, the 1980 silver-price peak would be $147 per troy ounce and would be $555 per troy ounce in terms of October 2012 SGS-Alternate-CPI-adjusted dollars (again, all series not seasonally adjusted).

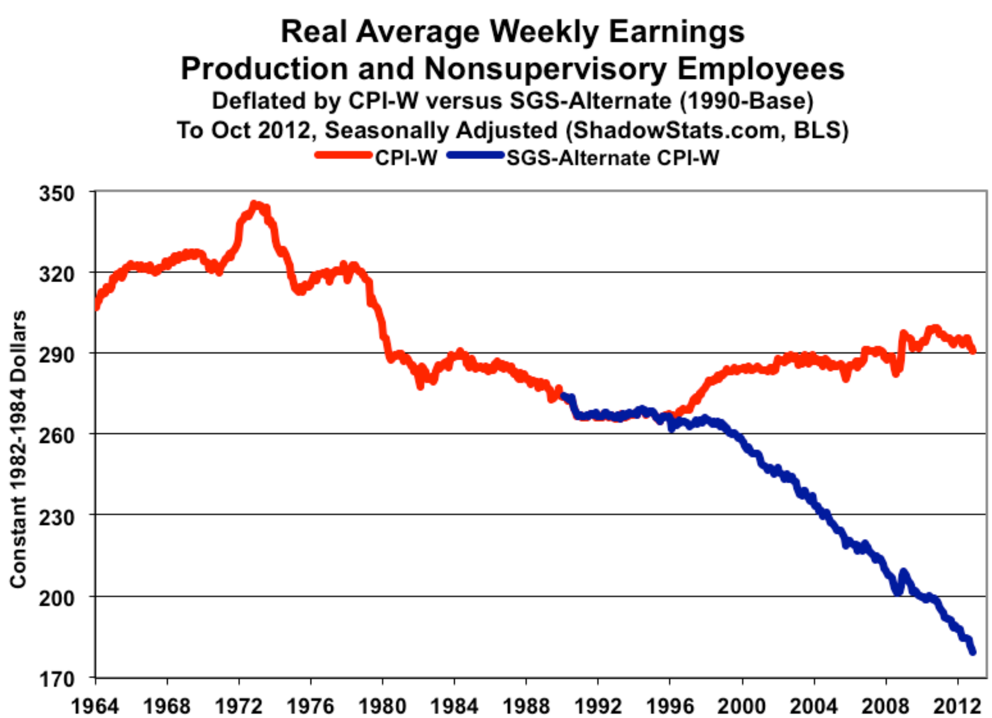
As shown in Table 1 on page 50 of *Hyperinflation 2012*, over the decades, the increases in gold and silver prices have compensated for more than the loss of the purchasing power of the U.S. dollar as reflected by CPI inflation, while they effectively have compensated fully for the loss of purchasing power of the dollar based on the SGS-Alternate Consumer Price Measure (1980 Methodologies Base).

Real Earnings. Coincident with today's (November 15th) CPI release for October 2012, the BLS published real (inflation-adjusted) average weekly earnings for October 2012. The production and nonsupervisory employees series showed that seasonally-adjusted, real average weekly earnings (deflated by the CPI-W) were down month-to-month by 0.5% (down by 0.3% before adjustment for inflation). At $290.90 (reported in 1982-84 CPI-W dollars), the average weekly earnings level was down 2.9% from its recent October 2010 high, and was at its lowest level since October 2008.

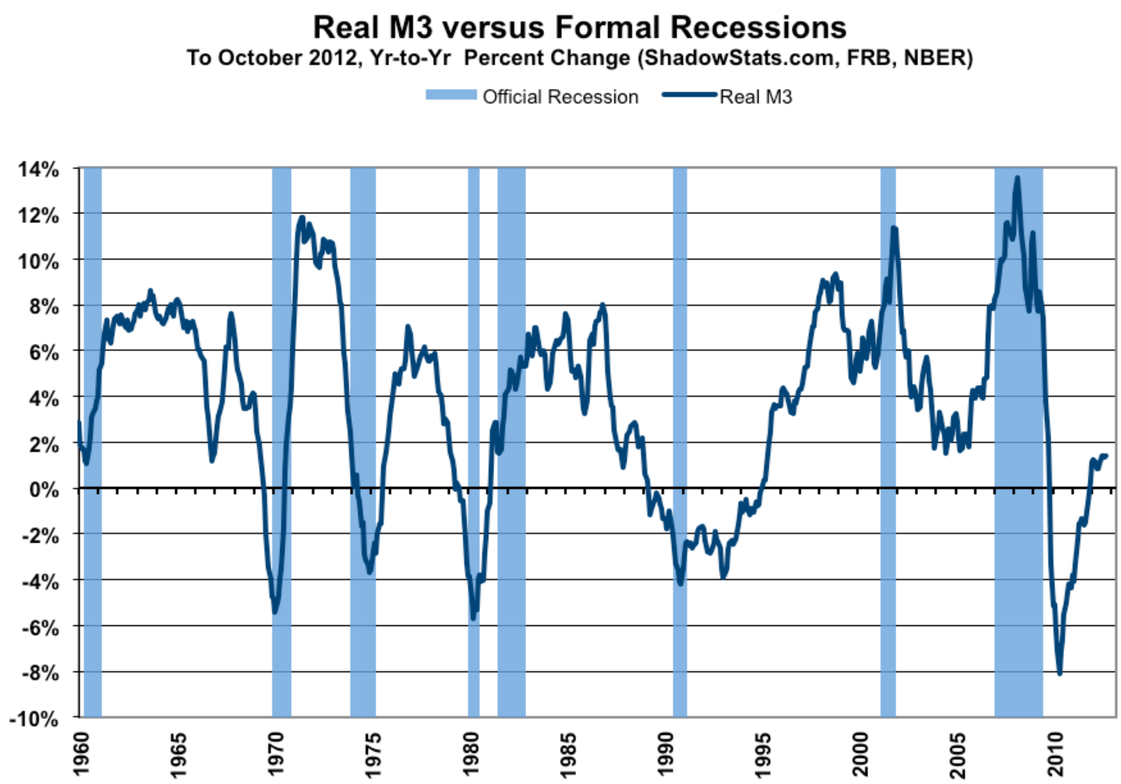
The October number followed a revised 0.1% (previously 0.4%) real contraction in September. Despite the narrowed September contraction, the level of real earnings in both September and August were revised lower.

Unadjusted and year-to-year, October 2012 real earnings fell by 2.7%, versus a 0.7% gain in September.

The production and nonsupervisory employees series is the only one published by the BLS that has meaningful historical data. The accompanying graph of the series shows earnings deflated by both the CPI-W and the SGS-Alternate Inflation Measure (1990-Base).



Real Money Supply M3. The signal for a double-dip or ongoing recession, based on annual contraction in the real (inflation-adjusted) broad money supply (M3), discussed in the in *Hyperinflation 2012*, remains in place and continues, despite real annual M3 growth having turned to the upside. As shown in the following graph—based on the October 2012 CPI-U report and the latest SGS-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for October 2012 was 1.4%, versus 1.3% in September, with stronger annual money growth more than offsetting the inflation uptick.



The signal for a downturn or an intensified downturn is generated when annual growth in real M3 first turns negative in a given cycle; the signal is not dependent on the depth of the downturn or its duration. Breaking into positive territory does not generate a meaningful signal one way or the other for the broad economy. The current downturn signal was generated in December 2009, even though there had been no upturn since the economy hit bottom in mid-2009. The broad economy tends to follow in downturn or renewed deterioration roughly six-to-nine months after the signal. Weaknesses in a number of series continued in 2011, with significant new softness in recent reporting.

A renewed downturn in official data is becoming more obvious, and that eventually should lead to official recognition of a double-dip recession. Reality remains that the economic collapse into 2009 was followed by a plateau of low-level economic activity—no upturn or recovery, no end to the official 2007 recession—and the downturn ahead remains nothing more than a continuation and re-intensification of the downturn that began in 2006.

PRODUCER PRICE INDEX—PPI (October 2012)

Year-to-Year Wholesale Inflation Continues to Rise. As reported yesterday, November 14th, by the Bureau of Labor Statistics (BLS), the regularly-volatile, seasonally-adjusted finished-goods producer price index (PPI) for October 2012 fell by 0.15% (down by 0.20% unadjusted), following a monthly gain of 1.12% (a gain of 0.61% unadjusted) in September.

The rounded 0.2% seasonally-adjusted decline reported in headline monthly inflation for October was accounted for by an adjusted 0.2% (unadjusted 2.4%) month-to-month decline in finished energy goods, plus an adjusted 0.4% gain (unadjusted 0.1% contraction) in food prices, and by an adjusted 0.2% decline (unadjusted 0.7% gain) in "core" inflation.

"Core" inflation is net of food and energy inflation. The concept of core inflation as a realistic measure of full inflation is nonsensical, where food and energy account for 41.4% of the finished goods PPI (24.6% of the CPI-U, 27.6% of the CPI-W). Even Mr. Bernanke, core-inflation's primary advocate at present, purportedly consumes food and energy.

The core measure, however, is useful as an indication of how energy prices (in particular) are impacting the broad economy. For October, the seasonally-adjusted monthly core PPI was down by 0.22% (up by 0.66% unadjusted) from September, versus an adjusted unchanged monthly reading (down 0.11% unadjusted) in September. Year-to-year, unadjusted core finished goods inflation eased to 2.11% in October from 2.30% in September. A comparison of core PPI with core CPI-U is graphed in the *Opening Comments and Executive Summary*.

Unadjusted and year-to-year, October's total finished-goods PPI continued to rise, with an annual inflation gain of 2.35%, versus 2.13% in September. Nonetheless, annual change in the PPI has weakened from a 7.08% near-term peak seen in July 2011, after which the annual numbers began going against a year-ago period where Mr. Bernanke was running QE2, meeting with early success in debasing the U.S. Dollar and generating an increase in oil prices. QE3's impact, so far, has been minimal, from jawboning, not from specific monetary action, with oil prices seeing mixed pressure, due partially to Middle-East political tensions.

<u>Intermediate and Crude Goods.</u> On a monthly basis, seasonally-adjusted October intermediate goods prices fell by 0.1%, following a 1.5% gain in September, with October crude goods prices up by 0.9%, following a September increase of 2.8%.

Year-to-year inflation in unadjusted October intermediate goods jumped by 0.8%, following a 0.1% decline in September. Year-to-year deflation in October crude goods narrowed to 0.2%, from 2.6% in September. The recent rebound in oil prices slowly is working its way into broad PPI reporting, on top of rising food prices.

RETAIL SALES (October 2012)

Downside Revisions to Third-Quarter Data Should Have Negative Impact on GDP Revision. The 0.3% headline decline in October retail sales was impacted minimally, in aggregate, by Super Storm Sandy. Where regional business activity was disrupted for the last three days of October, significant offsetting purchases of food, gasoline and other supplies, including emergency equipment, plywood and other preparatory and protective measures preceded the well-predicted disaster. Impact on reported retail sales, however, should be noticeable in November activity.

October retail sales were hit by other factors such as falling gasoline prices and spending constraints from continued impairments to consumer liquidity. 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.

Net of official CPI-U inflation, real monthly retail sales fell by 0.5% in October, with year-to-year growth slowing to 1.6%, a level that traditionally has signaled pending recession. Where the official recovery is a statistical illusion—it never happened (see *Commentary No. 478*)—this could be taken as a signal for an intensification of the downturn.

Further, with downside revisions to August and September retail sales levels in the latest reporting, the annualized real quarterly growth in third-quarter retails sales has slowed in revision to 2.9% from an initial 3.2% reporting. Such should place some downside pressure on the November 29th first revision to the third-quarter 2012 GDP estimate.

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* Special Commentary*, those factors continue to signal economic deterioration, not recovery, with the broad economy remaining in serious trouble.*

Nominal (Not-Adjusted-for-Inflation) Retail Sales. Yesterday's (November 14th) report on October 2012 retail sales—issued by the Census Bureau—indicated a statistically-insignificant, seasonally-adjusted monthly decline of 0.31% (down by 0.33% before prior-period revisions) +/- 0.6% (all confidence intervals are at the 95% level). The October decline followed a revised 1.27% (previously 1.15%) gain in September, although that was in the context of downside revisions to reported activity in both September and August.

Year-to-year October 2012 retail sales slowed markedly to 3.83% +/- 0.8%, where year-to-year growth for September was revised to 5.45% from the previously-reported 5.37%, thanks to an even greater downside revision to the previously-reported September 2011 number.

Core Retail Sales. In October, monthly grocery-store sales rose by 0.83%, while gasoline-station sales rose by 1.44%, reflecting some stocking up of food and fuel in advance of Hurricane Sandy. Under normal conditions, 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: October 2012 versus September 2012 seasonally-adjusted retail sales series—net of total grocery store and gasoline station revenues—was down by 0.74%, versus the official decline of 0.31%.

Version II: October 2012 versus September 2012 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—was down by 0.57%, versus the official decline of 0.31%.

Real (Inflation-Adjusted) Retail Sales. Based on today's, November 15th, October CPI-U estimate, inflation- and seasonally-adjusted October 2012 retail sales fell by 0.45% for the month, where, before inflation-adjustment (nominal basis), the current number was down by 0.31%. September real retail sales were revised to show a 0.69% (previously 0.58%) gain for the month, where the nominal gain was revised to 1.27%.

On a seasonally-adjusted basis, annualized quarterly growth in real retail sales was revised to 2.94% from initial reporting of 3.15% in third-quarter 2012, versus an annualized contraction of 1.74% in the second-quarter. To the extent the Bureau of Economic Analysis pays any attention to negative changes in this economic series, which partially underlies GDP reporting, the November 29th third-quarter GDP revision should show somewhat weaker growth in the personal consumption expenditure (PCE) category.

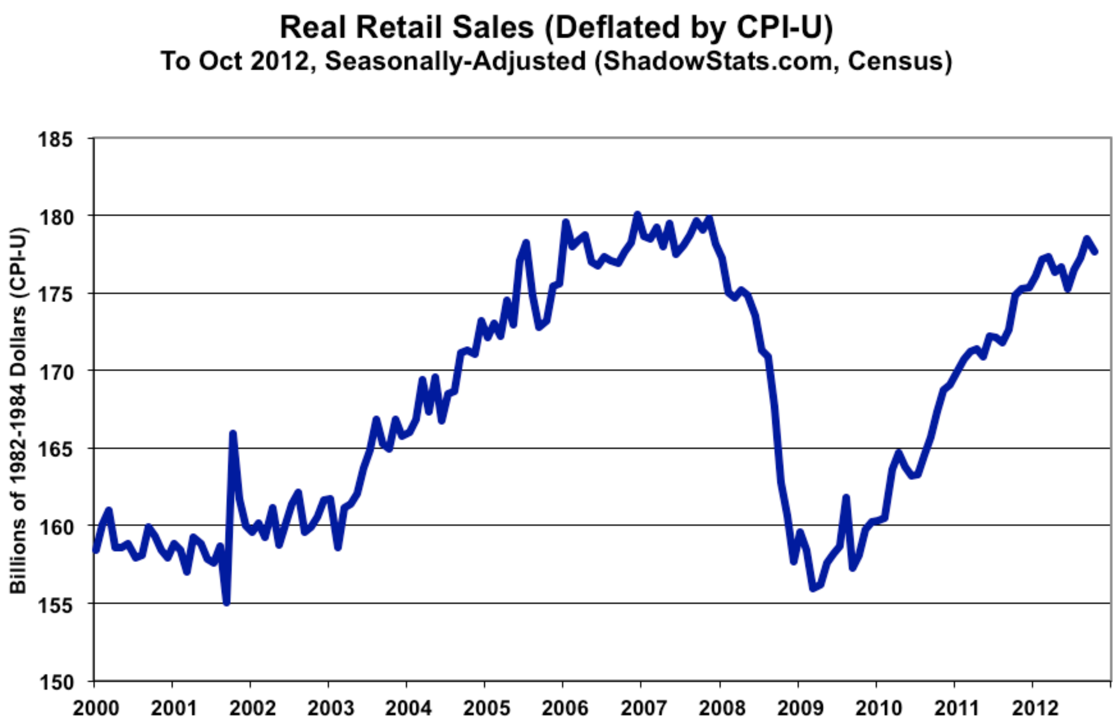
Year-to-year, October 2012 real retail sales rose at an annual pace of 1.61%, versus a revised 3.37% (previously 3.30%) in September. October annual growth has dropped to a level that would generate a reliable signal of pending recession, during more-normal economic times. In the current circumstance, the signal could be viewed as indicating a pending intensification of the downturn.

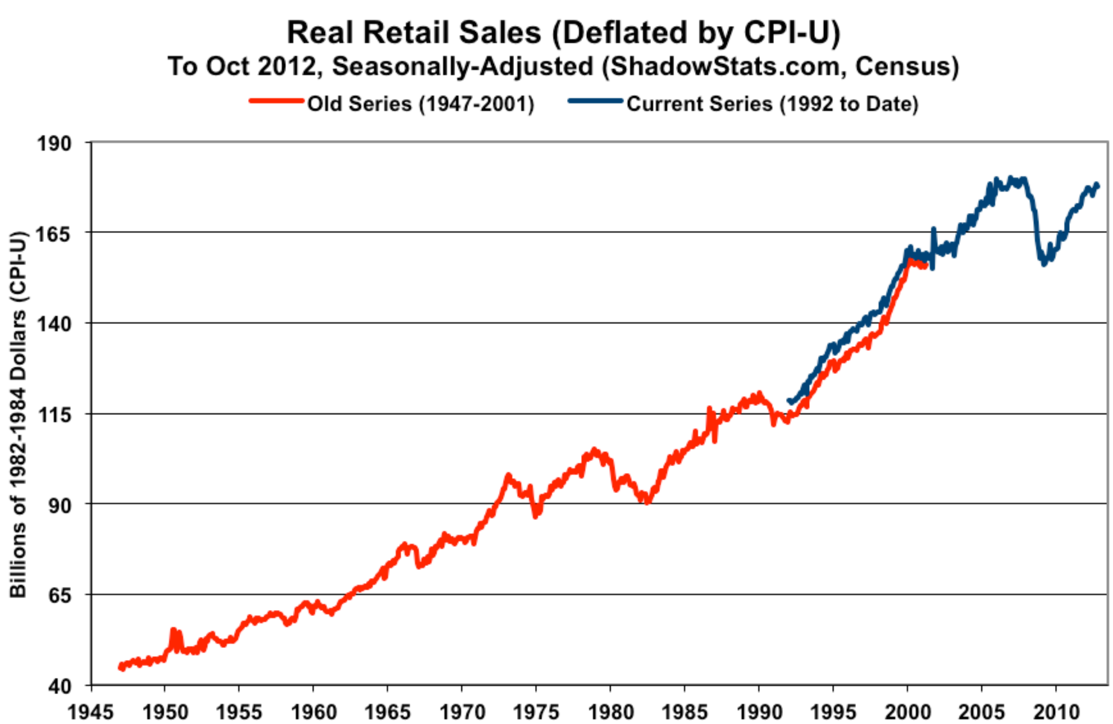
The first graph following shows real retail sales activity (deflated by the CPI-U) since 2000. The second graph shows the same series in full post-World War II detail.

The recent pattern turns increasingly negative in the updated "corrected" real retail sales graph shown in the *Opening Comments and Executive Summary* section. The corrected real numbers use the SGS-Alternate Inflation Measure (1990-Base) for deflation instead of the CPI-U. As discussed in *Hyperinflation 2012* and *Special Commentary No. 445*, deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating economic growth.

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.

As official consumer inflation continues to pick up, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—as reflected partially by real earnings, discussed in an earlier section, and again in *Commentary No. 469*—these data should continue trending meaningfully lower, in what eventually will become a formal double-dip recession.


Real Retail Sales (Deflated by CPI-U)
To Oct 2012, Seasonally-Adjusted (ShadowStats.com, Census)
Billions of 1982-1984 Dollars (CPI-U)
185
180
175
170
165
160
155
150
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012


Real Retail Sales (Deflated by CPI-U)
To Oct 2012, Seasonally-Adjusted (ShadowStats.com, Census)
Old Series (1947-2001)
Current Series (1992 to Date)
Billions of 1982-1984 Dollars (CPI-U)
190
165
140
115
90
65
40
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010

Week Ahead. Until such time as financial-market expectations catch up fully with underlying reality, or underlying reality catches up with the markets, reporting generally should continue to show higher-than-expected inflation and indicate 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, as seen, for example, in the October retail sales reporting.

Significant reporting-quality problems continue with most widely followed series. Headline reporting issues are tied largely to systemic distortions of seasonal adjustments, distortions that have been induced by the still-ongoing economic turmoil of the last five years. The recent economic collapse has been without precedent in the post-World War II era of modern economic reporting. These distortions have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series. In any event, where numbers are too far removed from common experience, they tend to be viewed by the public with extreme skepticism.

Still, recognition of an intensifying double-dip recession continues to gain, while recognition of a mounting inflation threat has been rekindled a bit by recent Fed monetary policies and rising headline inflation numbers. The political system would like to see the issues disappear; 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.

Industrial Production (October 2012). Due for release tomorrow, Friday, November 16th, by the Federal Reserve, the headline October 2012 industrial production number is likely to show an outright decline, reflecting ongoing efforts at reducing undesired business inventory levels. The headline monthly change most likely will be weaker than minimal plus-side market expectations. These numbers, however, remain subject to massive and irregular revisions that can distort the latest month's reporting.

Existing Home Sales (October 2012). October existing home sales are due for release on Monday, November 19th, from the National Association of Realtors, (the new home sales report from the Census Bureau is not due for release until Wednesday, November 28th). Entrenched patterns of stagnation likely have continued in both series, and the pending monthly results are not likely to be statistically-significant.

Residential Construction (October 2012). Detail on October housing starts is due for release on Tuesday, November 20th, by the Census Bureau. In the wake of the 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 just-passed October. Some minimal negative impact from Hurricane Sandy may be evident in the October numbers, but November would have been more severely impacted. Eventually, rebuilding in the storm-devastated areas should provide some temporary boost to activity. As has become the standard circumstance here, any reported monthly gain for October, likely would not be statistically significant.