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

COMMENTARY NUMBER 502
January 2013 Retail Sales

February 13, 2013

Retail Sales Continued to Stagnate,
Reflecting Intensifying Structural Liquidity Issues for the Consumer

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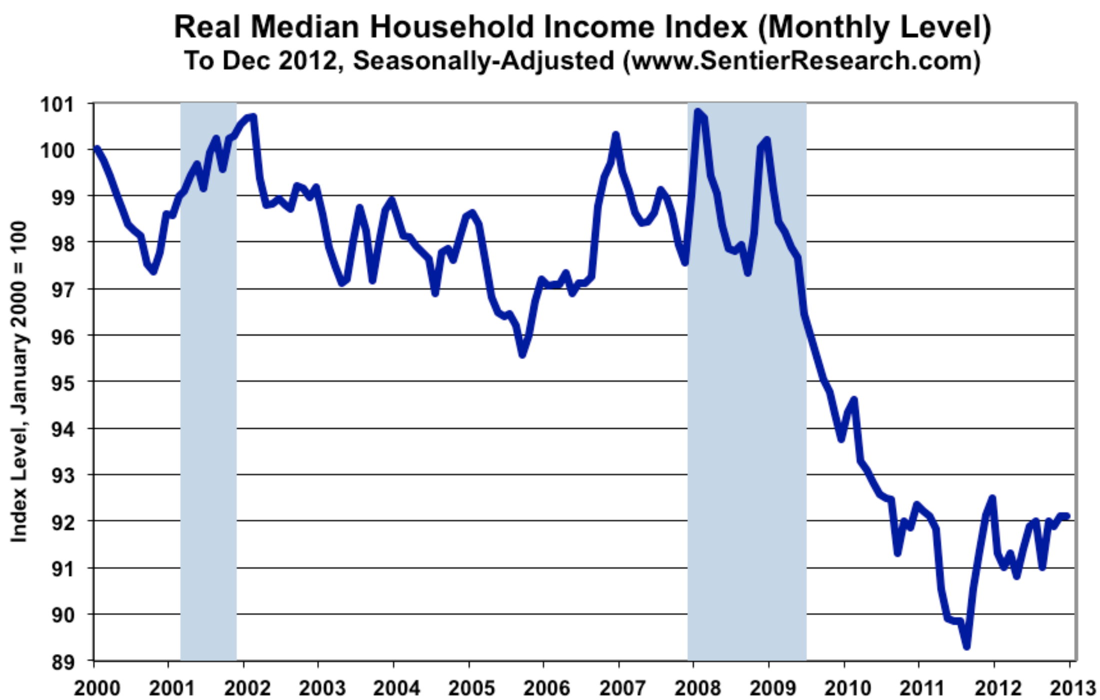
PLEASE NOTE: The next regular Commentary *is scheduled for Friday, February 15th, covering January 2013 industrial production.*

Best wishes to all — John Williams

Opening Comments and Executive Summary. Today's (February 13th) release of January 2013 retail sales activity showed ongoing stagnation in consumer spending, with both the January 2013 monthly gain of 0.13%, and the nearly-unrevised 0.50% monthly gain in December 2012 statistically insignificant.

Contrary to the President's contention last night that the rubble of the crisis had been cleared away, the economic and systemic-solvency crises remain in place. Particularly relevant to today's reporting, consumer income and credit conditions continue in shambles, with problems so severe as to prevent an economic recovery. Discussed and graphed in the *Opening Comments* of *Commentaries No. 501* and *No. 499*, structural consumer liquidity issues, and a resulting lack of economic confidence, still impair the consumer's ability to fuel sustained, positive real (inflation-adjusted) growth in retail sales or other measures of consumption. In particular, these constraints continue to extend to the consumer's lack of ability to sustain growth in housing-market activity.

The December reading of real median household income, as published by www.SentierResearch.com, showed continued stagnation in income levels, with income holding near the bottom of the current down-cycle. This income cycle began in downturn with the onset of the 2007 recession, but income continued to collapse in the period of official economic "recovery," and now it is bottom-bouncing around cycle lows. There has been no recovery in household income and no actual recovery in consumption or GDP (see *Special Commentary (No. 485)*).



Exacerbating consumer-liquidity issues at the beginning of 2013 have been tax hikes, which increasingly should take a toll on retail sales activity in the months ahead. The broad economic outlook has not changed. Economic activity continues to slow anew into what eventually should be recognized as a formal, double-dip recession. The February 15th *Commentary*, covering industrial production, will expand further on the economic implications of initial January 2013 economic reporting, with the *Commentaries* of following week enabling discourse on updated housing and inflation-adjusted data, such as real retail sales and real average weekly earnings. The inflation outlook also will be reviewed at that time.

[More-complete detail on January retail sales is found in the* Reporting Detail *section.]

HYPERINFLATION WATCH

Hyperinflation Outlook: Summary. This brief summary of the outlook for current economic activity, systemic solvency and inflation/hyperinflation is unchanged from the previous *Commentary*, intended primarily for new subscribers, as well as for those who otherwise are not familiar with the hyperinflation report or the recent special commentary, linked below. Those documents are suggested as background reading on the financial turmoil and currency upheaval facing the United States in the next year or two.

The November 27, 2012 *Special Commentary (No. 485)* updated *Hyperinflation 2012* and the broad outlooks for the economy and inflation, as well as for systemic stability and the U.S. dollar. These remain the two primary articles outlining current conditions and the background to the hyperinflation forecast. The basics have not changed here, other than events keep moving towards the circumstance of a domestic hyperinflation by the end of 2014. Accordingly, the time is near for publishing a fully updated hyperinflation report, and a March timing on that is likely.

The economic and systemic solvency crises of the last eight years continue. There never was an actual recovery following the economic downturn that began in 2006 and collapsed into 2008 and 2009. What followed was a protracted period of business stagnation that began to turn down anew in second- and third-quarter 2012. The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in calculating key economic series. Nonetheless, the renewed downturn likely will gain recognition as the second-dip in a double- or multiple-dip recession.

What continues to unfold in the systemic and economic crises is just an ongoing part of the 2008 panic and near-collapse of the system at the time. All the extraordinary actions and interventions bought a little time, but they did not resolve the various crises. That the crises continue can be seen in deteriorating economic activity and in the panicked actions by the Federal Reserve, where it proactively is monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise.

The Fed's current liquidity actions also can be viewed as a signal of deepening problems in the banking system. As Mr. Bernanke admits, the Fed can do little to stimulate the economy, but it can create systemic liquidity and inflation. Nonetheless, the Fed's easing moves have been an ongoing effort to prop-up the banking system and also to provide back-up liquidity to the U.S. Treasury.

Despite the near-term political hype that Congress will come up with a plan to balance the budget in a ten-year time frame, little but gimmicked numbers and further smoke-and-mirrors are likely to come out of current negotiations. Ongoing economic woes assure that the usual budget forecasts—based on overly-optimistic economic projections—will fall far short of fiscal balance and propriety. Furthermore, chances remain nil for the government addressing the GAAP-based deficit that hit $6.6 trillion in 2012, instead of the popularly followed, official cash-based accounting deficit in 2012 of $1.1 trillion, as discussed in *No. 500: Special Commentary*.

Efforts at delaying meaningful fiscal action, and at briefly postponing conflict over the Treasury's debt ceiling, have bought the politicians in Washington minimal time in the global financial markets, but the patience in the global markets is near exhaustion. The continuing unwillingness and political inability of the current government to address seriously the longer-range U.S. sovereign-solvency issues, only pushes along the regular unfolding of events that eventually will trigger a domestic hyperinflation, as discussed in *Commentary No. 491*. The unfolding fiscal collapse, in combination with the Fed's direct monetization of Treasury debt, will tend to savage the U.S. dollar's exchange rate, to boost oil and gasoline prices, and to boost money supply growth and domestic U.S. inflation. Market tranquility likely will not last much longer, despite the tactics of delay by the politicians and obfuscation by the Federal Reserve. This should become increasingly evident as the disgruntled global markets begin to move against the U.S. dollar. A dollar selling panic is likely this year, with its effects and aftershocks setting hyperinflation into action in 2014.

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REPORTING DETAIL

RETAIL SALES (January 2013)

January Retail Sales Were Stagnant Along With Unstable Seasonally-Adjusted Reporting. The headline 0.1% monthly gain in January 2013 was not statistically significant, and December's monthly gain of 0.5% was unrevised at the first decimal point. Otherwise, highly variable and unstable seasonal factors clouded activity in the November 2012-to-January 2013 period, and in December 2011-to-January 2012, five months that are published on a non-comparable basis with all the other historical monthly numbers, due to the use of concurrent seasonal adjustments. These inconsistencies allow for unreported shifts in the historical data that may have the impact of boosting current headline numbers.

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), as well as temporarily from the impact of Hurricane Sandy. 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 in the Opening Comments *and recently in* Hyperinflation 2012 *and* Special Commentary (No. 485).

Another regular distortion to the retail sales reporting is in sampling assumptions. Like the Bureau of Labor Statistics, with its payroll survey, the Census Bureau assumes that a non-reporting company still is in business and just didn't get around to filing its sales report on a timely basis. So, where businesses are not able to participate in regular surveying, due to economic or disaster impact, the Census Bureau simply estimates what it feels the missing sales reporting should have been, and those numbers are added into the headline reporting.

Nominal (Not-Adjusted-for-Inflation) Retail Sales. This morning's (February 13th) report on January 2013 retail sales—issued by the Census Bureau—indicated a statistically-insignificant, seasonally-adjusted monthly increase of 0.13% (a gain of 0.22% before prior-period revisions) +/- 0.6% (all confidence intervals are at the 95% level), versus a revised monthly gain of 0.50% (previously 0.51%) in December.

Year-to-year, January 2013 retail sales rose by 4.37% +/- 0.8%, versus a revised 4.80% (previously 4.78%) in December. The pattern of growth here remains distorted by a continuing pattern of unstable concurrent seasonal-adjustment factors and the lack of fully-consistent seasonally-adjusted numbers being published by the Census Bureau.

Core Retail Sales. In January 2013, monthly grocery-store sales rose by 0.65%, while gasoline-station sales increased by 0.25%, reflecting both higher food and gasoline prices and continued restoration of normal operations post-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:

<u>Version I:</u> January 2013 versus December 2012 seasonally-adjusted retail sales series—net of total grocery store and gasoline station revenues—was virtually unchanged at a gain of 0.03%, versus the official gain of 0.13%.

<u>Version II:</u> January 2013 versus December 2012 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—also was virtually unchanged at a gain of 0.03%, versus the official gain of 0.13%.

Real (Inflation-Adjusted) Retail Sales. With headline January 2013 CPI inflation likely to be positive, the headline inflation-adjusted, or real, estimate of the January 2013 monthly retail sales change should be unchanged or minus, given the nominal headline estimate of a 0.13% gain. The inflation-adjusted retail sales details will be provided in the February 21st *Commentary*, which will cover the release of January 2013 CPI-U. Real year-to-year change likely will remain in the range of historical growth that traditionally would signal pending recession, during normal economic times.

WEEK AHEAD

Weaker Economic and Stronger Inflation Data Are Likely. *Beyond the dissipating effects of the repair, replacement and reconstruction activity generated by Hurricane Sandy, and in anticipation of the likely negative impact of expanded QE3 and the ongoing fiscal crisis/debt-ceiling negotiations on the currency markets, reporting in the months and year ahead generally should reflect higher-than-expected inflation and indicate weaker-than-expected economic results. Increasingly, previously unreported economic weakness should continue to show up in prior-period revisions.*

Significant reporting-quality problems continue with most major economic series. Headline reporting issues remain 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 reported 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 by the Fed's monetary policies. The political system would like to see the issues disappear, and it still appears to be trying to work numerical slight-of-hand with series such as the GDP and related projections of the federal budget deficit. The media do their best to avoid publicizing unhappy economic news or, otherwise, they put a happy spin on the numbers. Pushing the politicians and media, the financial markets and related spinmeisters 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 Hyperinflation 2012 *and* No. 485: Special Commentary.

Industrial Production (January 2013). The release of detail on the January 2013 index of industrial production is scheduled for Friday, February 15th, by the Federal Reserve. The headline January production number has a fair shot of seeing an outright contraction in initial reporting—at least net of revisions—in this increasingly unstable series. Despite any inventory liquidation that took place in fourth-quarter 2012, more is needed, and restricted production would help maintain that trend in January. Reporting likely will disappoint minimally-positive market expectations, against initial reporting in December of a 0.3% monthly gain. Again, keep in mind that this series is subject to frequent and significant downside revisions.

