

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

COMMENTARY NUMBER 510

February 2013 CPI, PPI, Real Retail Sales and Earnings, Production

March 15, 2013

**Budget-Deficit Negotiations Purportedly Revert Back to
Using Fraudulent Reductions to CPI Inflation**

Topping Expectations, Monthly Inflation Hit 0.7% for Both PPI and CPI-U

February Year-to-Year Inflation: 2.0% (CPI-U), 1.9% (CPI-W), 9.6% (ShadowStats)

Retail Sales Gained 0.4%, Instead of 1.1%, Adjusted for Headline Inflation

**Pending Downside Production Benchmark Revisions Are Likely,
Despite February's Gain**

PLEASE NOTE: The next regular Commentary is scheduled for Tuesday, March 19th, covering February housing starts, followed by a Commentary on Friday, March 22nd, covering the annual benchmark revision to industrial production, and the monthly reporting of February existing-home sales.

ERRATA: The headline for [Commentary No. 509](#) should have read "Beyond Incorporating Significant Inflation, February Retail Sales Gain Ran Counter to Evidence of Slowing Real Activity," not "...March Retail Sales..." The Commentary posted on the www.ShadowStats.com has been so revised.

Best wishes to all — John Williams

Opening Comments and Executive Summary. Reflecting rising gasoline prices—inspired at least partially by the Federal Reserve’s recent easing activities—headline February CPI and PPI inflation topped otherwise strong market expectations, with both series showing month-to-month gains of 0.7%. The inflation surge accounted for the bulk of the increase in headline retail sales for February. Despite the inflation jump, real (adjusted-for-inflation) average weekly earnings were unchanged for the month, due to an offsetting increase in hours worked. In turn, the increased hours at least were consistent with a monthly gain in industrial production.

Nonetheless, the system remains in the throes and aftershocks of the 2008 panic, faced with ongoing economic depression, inevitable hyperinflation and a fair chance of another panic. The broad outlook for constrained and contracting business activity remains in place, with the economic and systemic solvency crises continuing. 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, such as GDP, real retail sales and industrial production. Nonetheless, a developing, renewed official downturn likely will gain recognition as the second-dip in a double- or multiple-dip recession.

An Opinion on the Renewed Push to Use the C-CPI for COLA, Inflation Indexing. The Chained-CPI (C-CPI) is a fully-substitution-based version of the CPI-U, designed to reduce the level of reported inflation that otherwise would be used by individuals to make decisions tied to investments and income. As a vehicle for artificially reducing COLA adjustments to such programs as Social Security, its proposed use appears to be a rare area of agreement between both sides in the current budget-deficit negotiations.

Those in the federal government who are honest and forthright with the American public—at least about the proposal to understate the official rate of inflation for purposes of budget reduction—have failed to drive a wooden stake through the heart of the C-CPI. Arising from its second, premature political burial, the C-CPI looks again like it has a strong chance of being used as a new federal parasite to drain consumer liquidity. Like a vampire bat that sucks only enough blood for self-nourishment—leaving its victims alive for further abuse—the use of the C-CPI as a cost-of-living adjustment (COLA) measure is designed to suck real disposable income from the limited cash-flow of Social Security recipients, for the benefit of politicians who do not have the guts to vote against Social Security.

Those receiving, or who will be receiving Social Security payments were forced to pay into the system for all of their working lives, and generally believed the U.S. government would treat them fairly and honestly. The bloodsuckers in Washington have hit their victims similarly, before, back in the 1980s with the introduction of hedonic-quality adjustments to inflation, and in the 1990s with the change of concept in the CPI to a quasi-substitution-based inflation measure. Previously, the CPI measured inflation for a fixed-weight basket of goods, which measured COLAs as an inflation adjustment needed to maintain a constant standard of living.

As noted in the [Public Comment on Inflation](#), these methodological changes have altered the CPI-U and the CPI-W so that they no longer measure those costs of maintaining a constant standard of living (substitution effects) and no longer measure out-of-pocket costs (hedonic-adjustment effects). Without the changes made to CPI calculations of the last several decades, Social Security payments would be more than double what they are today. Indeed, with the use of a substitution-based index (the C-CPI is fully substitution based), the resulting cost of living adjustments promise only a declining standard of living.

Expanding the example that former Federal Reserve Chairman Alan Greenspan often used, where, as the price of steak rose, consumers would shift to hamburger, so too with higher hamburger costs have some cash-strapped retirees actually shifted consumption to dog food.

The President and Congress must address Social Security and other programs, such as Medicare, restructuring them so as make them solvent over the long haul, eliminating the horrendous levels of unfunded liabilities that are deteriorating at an aggregate pace in excess of \$5 trillion per year on a net-present-value basis. With those controlling the government lacking the political will to make such changes, there can be no meaningful budget deal structured by the negotiators in Washington.

The government must be honest with its citizens. If the government cannot afford to pay full COLAs, it is better to indicate that upfront, rather than to try to fool individuals as to the actual level of inflation they have to overcome in order to maintain their living standards. Cutting benefits by stealth and deceit may be politically expedient for the miscreants playing this game, but it is utterly unconscionable.

Beyond the damage caused by the C-CPI not reflecting out-of-pocket costs, and no longer measuring the cost of living of maintaining a constant standard of living (see [Commentary No. 489](#) and the [Public Comment on Inflation](#)), the C-CPI further is not a practical measure for being used as a COLA measure. Discussed in [Commentary No. 505](#), the setting of a final C-CPI inflation rate for a given period cannot be published within two years, not timely-enough to make it feasible as a COLA factor.

February 2013 Consumer Price Index. Boosted by a jump in gasoline prices, the seasonally-adjusted headline CPI-U rose by 0.68% for the month, following an “unchanged” 0.03% increase in January. Year-to-year, unadjusted CPI-U inflation rose to a four-month high of 1.98% in February, from a 1.59% year-to-year pace in January.

The February headline CPI-W rose by 0.81% for the month, following an “unchanged” 0.04% monthly decline in January. Unadjusted, year-to-year CPI-W inflation was 1.94% in February, up from a 1.48% annual rate in January.

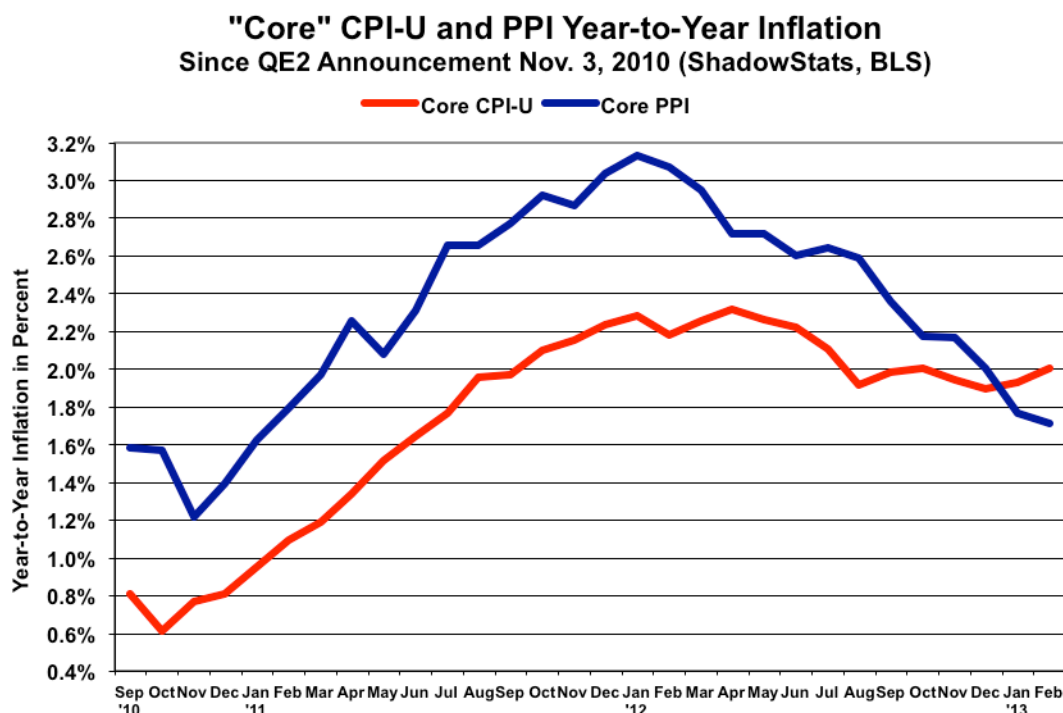
Initial reporting of year-to-year inflation for the February C-CPI-U was 1.80%, versus a 1.46% annual gain in January.

Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-based)—annual CPI inflation was roughly 5.4% in February 2013, versus 5.1% in January. The ShadowStats-Alternate Consumer Inflation Measure (1980-Based), rose to about 9.6% in February, versus an annual inflation rate of 9.2% in January.

February 2013 Producer Price Index. The headline finished-goods PPI for February 2013 rose by 0.66%, dominated by higher energy costs. That followed a January headline gain of 0.20%. The rounded 0.7% seasonally-adjusted February finished goods gain reflected a 3.0% month-to-month increase in finished energy goods, partially offset by a 0.5% decline in food prices, plus an adjusted 0.2% gain in “core” inflation.

“Core” Inflation. “Core” CPI-U inflation (net of food and energy inflation), unadjusted and year-to-year, rose to 2.00% in February, versus 1.93% in January. Movement in the core-CPI continued to diverge

from that of the core-PPI, which, unadjusted, was up year-to-year by 1.71% in February, versus 1.77% in January. A comparison of core PPI with core CPI-U year-to-year growth is shown in the following graph.



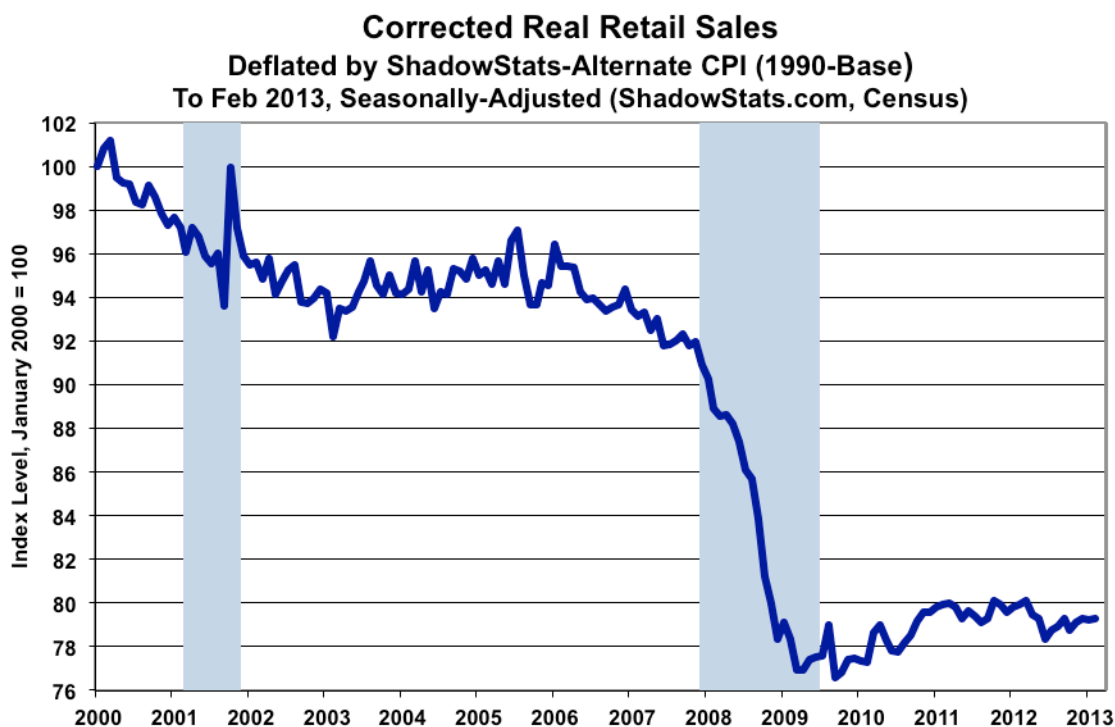
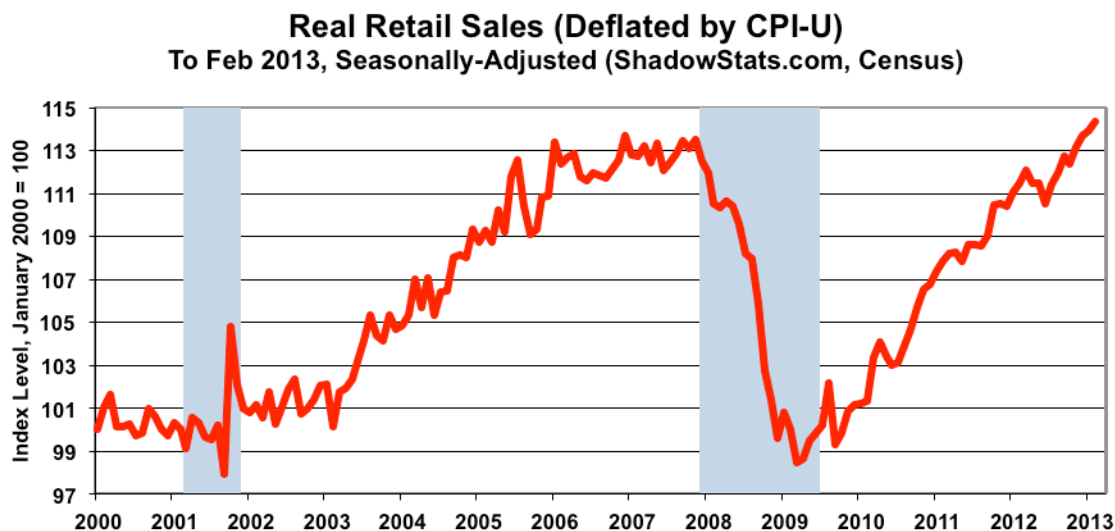
February 2013 Real (Inflation-Adjusted) Retail Sales. The bulk of February's 1.06% monthly surge in nominal (not-adjusted-for-inflation) retail sales was from rising prices. Based on the February CPI-U estimate, inflation- and seasonally-adjusted real retail sales gained 0.37% in February, versus a monthly real increase of 0.19% in January. Year-to-year, real retail sales rose at an annual pace 2.59%, versus a downwardly-revised 2.58% in January. Both the February and January 2013 annual growth rates were at levels that would generate a reliable signal of pending recession, during normal economic times. In the current circumstance, that suggests a pending intensification of the ongoing general downturn.

The first graph following reflects official real retail sales reporting, which, at least temporarily, has regained its pre-recession level. That pattern does not hold, however, if the series is corrected for understated inflation, as shown in the second graph. Corrected for the use of understated inflation rates used in the economic deflation process, a renewed downturn in activity—following an extended period of low-level stagnation—actually began in second- or third-quarter 2012.

Corrected Retail Sales. The first graph reflects real retail sales as reported by the St. Louis Fed, deflated by the CPI-U, but it is indexed to January 2000 = 100. The CPI-U, however, understates inflation (see the [Public Comment on Inflation](#)), with the effect of overstating inflation-adjusted growth.

Instead of being deflated by the CPI-U, the "corrected" real retail numbers in the second graph use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation. As discussed in [Hyperinflation 2012](#) and [Special Commentary \(No. 485\)](#), with the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation. The recent topping-out process now has reverted to

renewed decline, as of second-quarter 2012, in a series that had been bottom-bouncing along a low-level plateau of economic activity, following the economic collapse of 2006 into 2009. The two retail sales charts are indexed to a consistent scale.



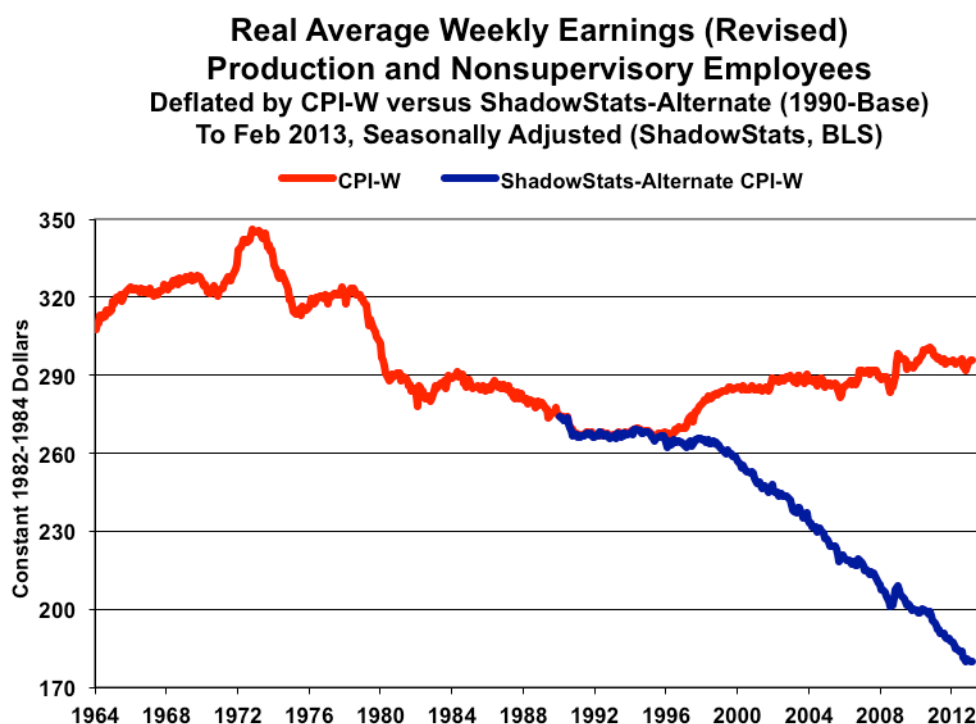
February 2013 Real (Inflation-Adjusted) Average Weekly Earnings. Coincident with the CPI release, the Bureau of Labor Statistics (BLS) published real average weekly earnings for February. The production and nonsupervisory employees series showed that seasonally-adjusted, real average hourly

earnings (deflated by the CPI-W) plunged by 0.6% in February 2013, having gained 0.3% in January, but that did not translate into a headline decline in real average weekly earnings, since a headline 0.6% jump in February's weekly hours offset the wage decline.

Accordingly, headline, real average weekly earnings were unchanged for the month of February, against an unrevised "unchanged" estimate for January. Unadjusted and year-to-year, February 2013 real earnings gained by 0.1%, versus a revised annual decline of 0.1% (previously a drop of 0.1% in January).

In the following graph, the red line reflects the earnings series as officially deflated by the BLS. As the inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been flat for the last decade.

Also shown is the graph, the blue line is adjusted for the ShadowStats-Alternate CPI measure (1990-based). On that basis, inflation-adjusted earnings have been in fairly regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W.

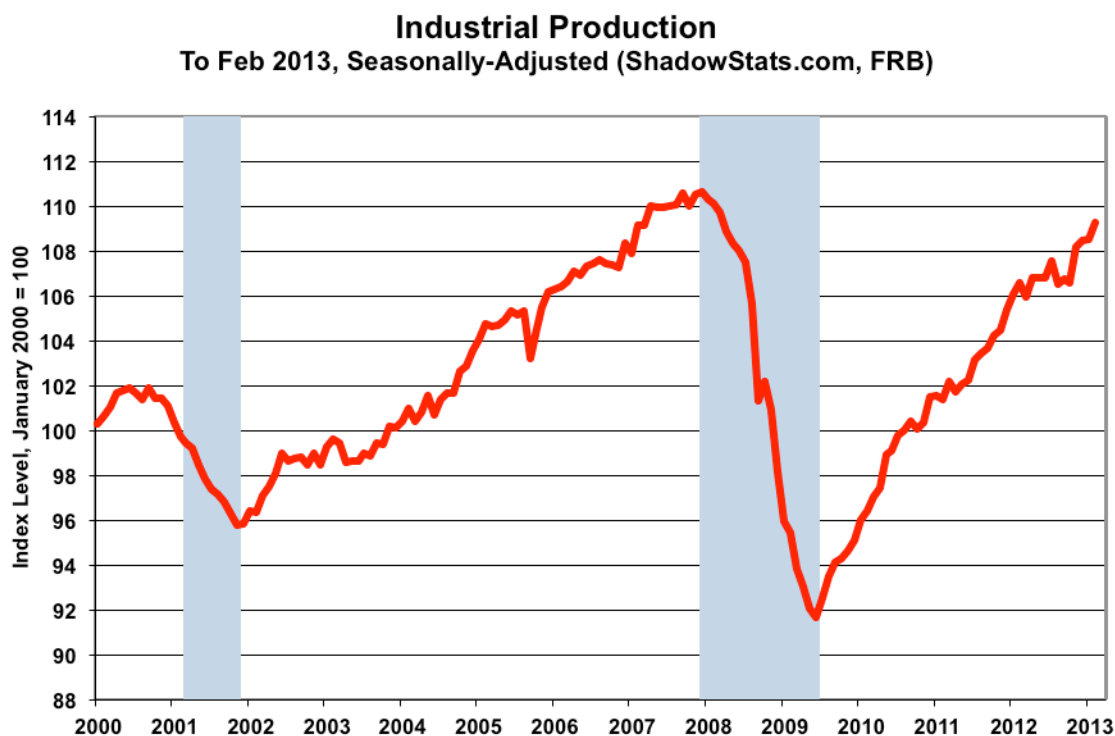


February 2013 Industrial Production. February industrial production showed a headline monthly gain of 0.72%, versus a revised 0.05% gain (previously a 0.10% contraction) in January. The rounded 0.7% monthly gain in aggregate production reflected a 0.8% gain in manufacturing, a 1.6% gain in utilities, and a 0.3% decline in mining, which was the third straight monthly decline there.

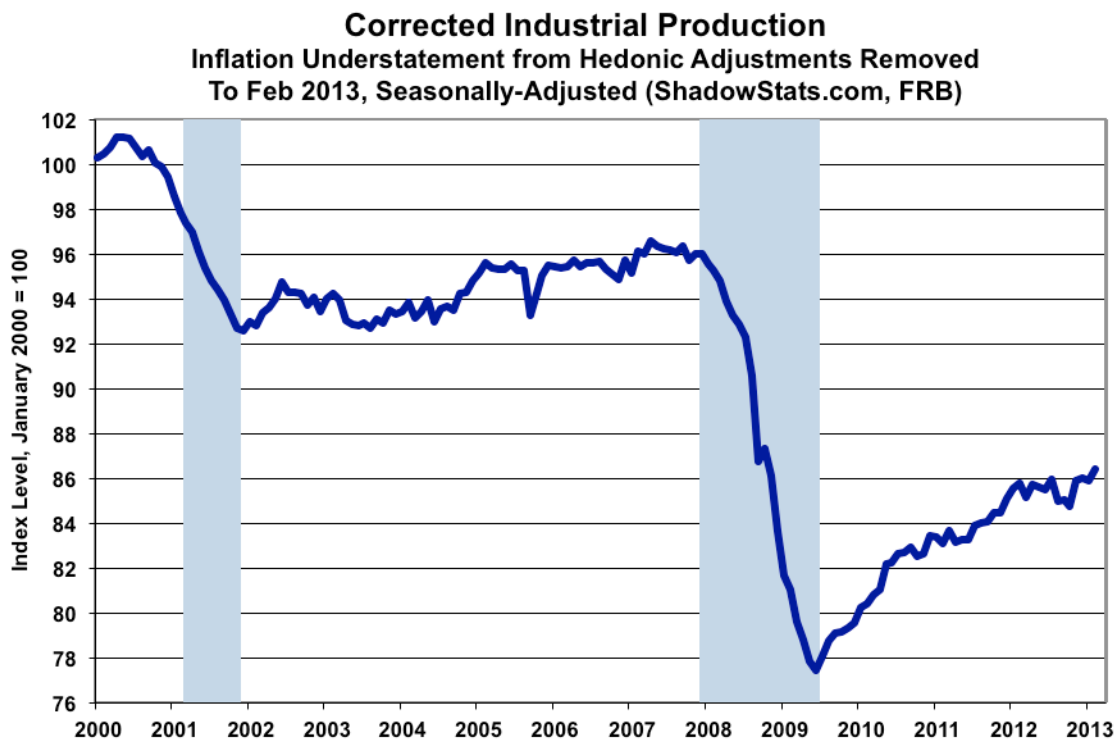
Year-to-year growth in February production rose to 2.52%, from a revised 2.28% in January. The last time that year-to-year production growth slowed to the levels seen in recent months, was going into the formal onset of the 2007 recession.

All the data here will change with the benchmark revision due for release on March 22nd. Weaker historical activity is likely for the revamped numbers, which will be changed back through 1972. The graph will be updated at the time in a related *Commentary*.

Corrected Industrial Production. Hedonic quality adjustments understate the inflation used in calculating components of industrial production, with the effect of overstating the inflation-adjusted growth reported in the headline industrial production series (see [Special Commentary \(No. 485\)](#) and [Public Comment on Inflation](#)). The two graphs following address that issue. The first reflects official industrial production reporting, indexed to January 2000 = 100, instead of the Fed's index that is set at 2007 = 100. The 2000 indexing is used simply to provide for some consistency in this series of revamped graphics. The second graph is a corrected version of the first, with estimated hedonic-inflation adjustments backed-out of the official deflator.



The “corrected” graph does show some growth in the period following the official June 2009 near-term trough in production activity. Yet, that upturn has been far shy of the full recovery reported in the GDP. Production levels have not regained pre-recession highs (even uncorrected), but, instead, entered a period of protracted low-level stagnation in 2012, with a new quarterly contraction in third-quarter 2012, followed by continuing bottom-bouncing. Again, these data all will be revised with the March 22nd revision to the series, back to 1972.



[More-complete details on the February CPI, PPI, real retail sales, real earnings and industrial production data are found in the Reporting Detail section.]

HYPERINFLATION WATCH

Hyperinflation Outlook: Updated Summary. This updated summary has not changed meaningfully from earlier versions. It is intended for new subscribers and for readers looking for a condensed version of the broad outlook or who otherwise are not familiar with the hyperinflation report or recent special commentaries, 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 outlook 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. Nonetheless, a fully updated hyperinflation report is targeted for publication in April.

Nothing is normal: not the economy, not the financial system, not the financial markets and not the political system. The system remains still in the throes and aftershocks of the 2008 panic and the near-

systemic collapse, and from the ongoing responses to same by the Federal Reserve and federal government. Further panic is possible and hyperinflation is inevitable.

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, given the nature of official reporting, the renewed downturn likely will gain recognition as the second-dip in a double- or multiple-dip recession.

Indeed, what continues to unfold in the systemic and economic crises is just an ongoing part of the 2008 turmoil. 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. As discussed in the *Opening Comments* section [of [Commentary No. 505](#)], hoopla to the contrary in the popular press, that the Fed might pull-back on its “easing,” most likely was designed to help jawbone and firm-up the U.S. dollar and to soften gold in the immediate period running up to the imminent crises in the federal-budget and debt-ceiling negotiations.

The Fed’s recent and ongoing liquidity actions also can be viewed as a signal of deepening problems in the system. Mr. Bernanke admits that the Fed can do little to stimulate the economy, but it can create systemic liquidity and inflation. Nonetheless, the Fed’s easing moves appear to 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, perhaps in a ten-year time frame, little but gimmicked numbers and further smoke-and-mirrors are likely to come out of the negotiations. If the best the negotiators can agree on is monkeying with CPI inflation reporting (see the *Opening Comments*) there is no chance of a pending substantive agreement.

Further, ongoing and deepening economic woes assure that the usual budget forecasts—based on overly-optimistic economic projections—will fall far short of fiscal balance and propriety. Chances also 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 time largely has run out and 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](#).

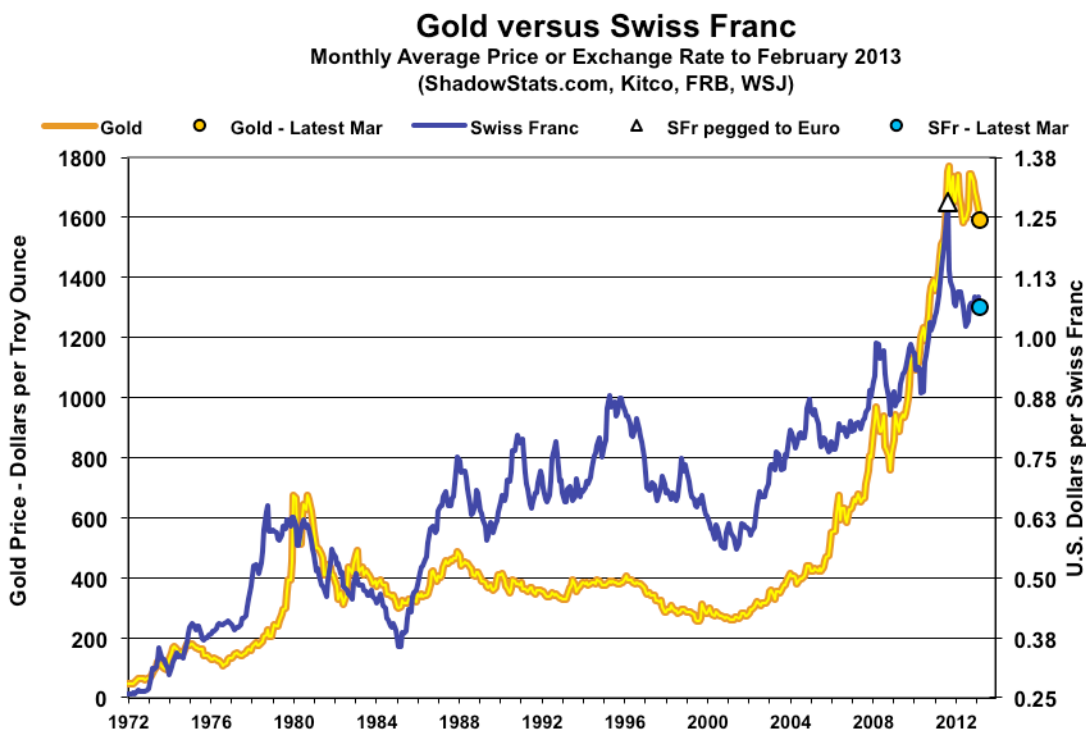
The unfolding fiscal catastrophe, in combination with the Fed’s direct monetization of Treasury debt, eventually (more likely sooner rather than later) will savage the U.S. dollar’s exchange rate, boosting oil and gasoline prices, and boosting money supply growth and domestic U.S. inflation. Relative 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 sustainably against the U.S. dollar, despite any near-term gyrations. A dollar-selling panic is likely this year, with its effects and aftershocks setting hyperinflation into action in 2014.

Monthly Gold Graphs. Following are the regular graphs of gold prices versus the Swiss franc, oil prices and silver prices that usually accompany the *Commentary* on the monthly CPI release. Market volatility has continued, with weaker near-term prices on the precious metals and oil, and a stronger dollar.

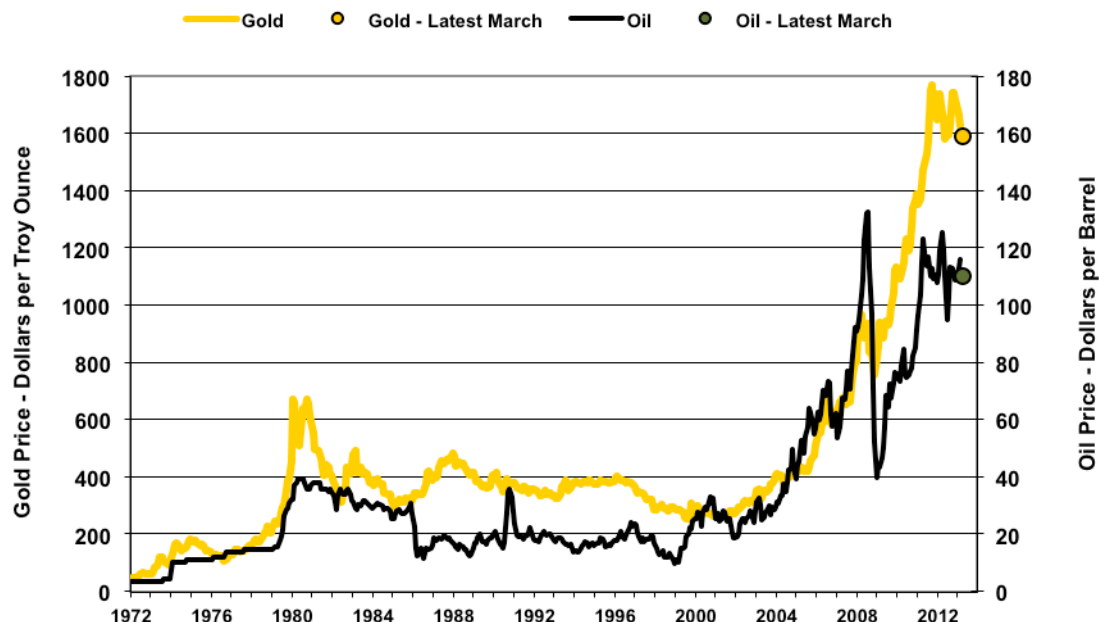
The intensifying political negotiations on containing U.S. fiscal excesses and on raising the debt ceiling are much more likely than not to push the value of the U.S. dollar lower versus all of the items tracked in these graphs. As the talks generally get more contentious, global markets increasingly should move to avoid holding the U.S. dollar, irrespective of near-term market gyrations from the short-lived effects of any jawboning and/or currency intervention.

In the event of a budget-deficit reduction agreement, the chances are nil of a deal actually resolving or coming close to resolving the longer-range solvency issues facing the United States. Again, the global markets likely would respond negatively versus the U.S. dollar, despite any market gyrations following likely short-lived financial-market and political hype.



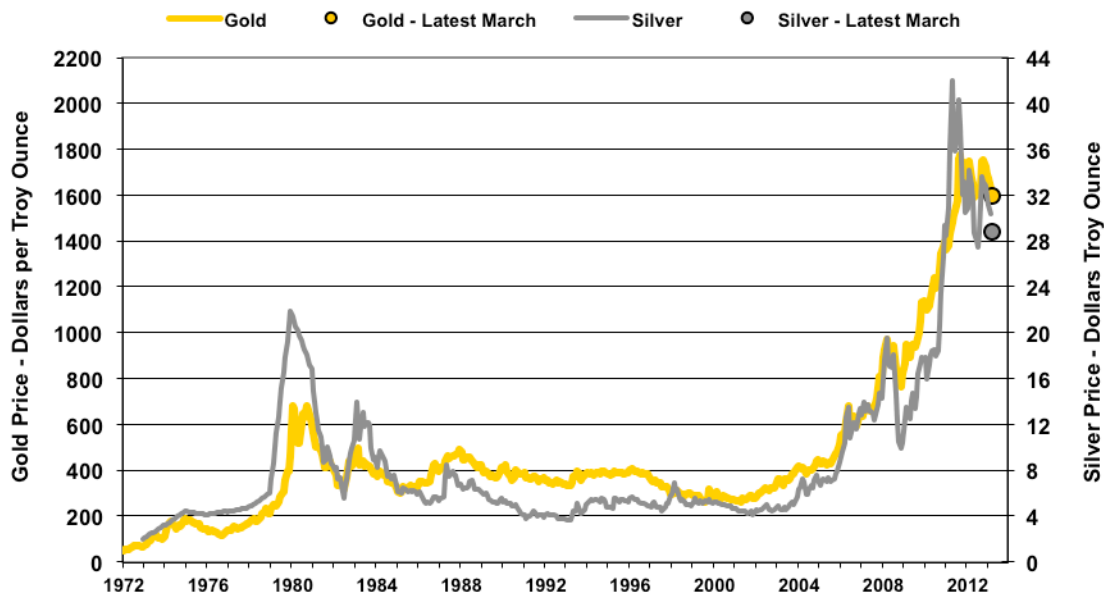
Gold versus Oil (WTI/Brent)

Monthly Average Prices to Feb 2013, Pre-1987 is WTI (ShadowStats.com, Kitco, DOE)



Gold versus Silver

Monthly Average Price Levels to February 2013
Pre-1981 Silver is Year-End (ShadowStats.com, Kitco, Handy & Harman)



REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (February 2013)

Monthly Consumer Inflation Jumped in Response to Soaring Gasoline Prices. The Bureau of Labor Statistics (BLS) reported a 0.7% gain in headline February CPI-U monthly inflation, versus an unchanged pace of inflation in January. Annual inflation rose to a four-month high of 2.0% in February, from a 1.6% year-to-year pace in January. The unadjusted 10.1% monthly gain in February gasoline prices has slowed sharply in March, although average March gasoline prices still are on track to top the average gasoline prices seen in February.

With the Federal Reserve's expanded direct purchasing and monetization of U.S. Treasury securities, and with renewed turmoil pending in budget and debt-ceiling negotiations, downside pressure on the exchange rate value of the U.S. dollar is likely in the next month or two—irrespective of near-term turbulence—along with related spikes in the price of oil and gasoline. In turn, those factors should help accelerate the pace of consumer inflation to the upside in the months ahead.

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. Since it is fully substitution based, the series tends to reflect lower inflation than the other CPI measures. Accordingly, the C-CPI-U is the “new inflation” measure being considered by Congress and the White House as a tool for reducing Social Security cost-of-living adjustments by stealth.*

*The **ShadowStats 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. There are two measures, where the first is based on reporting methodologies in place as of 1980, and the second is based on reporting methodologies in place as of 1990.*

CPI-U. The BLS reported March 15th, that the headline, seasonally-adjusted CPI-U for February 2013 rose by 0.68% for the month (up by 0.82% unadjusted), versus a seasonally-adjusted “unchanged” (up by 0.03% at the second decimal point, but up by 0.30% on an unadjusted basis) in January. As is typical at this time of year, seasonal adjustments suppressed the headline monthly inflation rates.

A large jump in nominal (not-adjusted-for-inflation) gasoline prices was muted some by seasonal adjustments. Unadjusted monthly-average gasoline prices rose by 10.1% in February 2013 (and they are still higher on average in March), per the BLS, where the more-comprehensive surveying of the Department of Energy showed an unadjusted monthly gain of 10.2%. Seasonal-adjustments softened the unadjusted 10.1% BLS monthly gain in gasoline prices to a seasonally adjusted gain of 9.1%. Overall, unadjusted energy prices gained 5.8% for the month, a gain of 5.4% net of seasonal factors.

Among the other major CPI components, a not-too-credible unadjusted “unchanged” level in monthly food prices was increased to a gain of 0.1%, after seasonal adjustments, while an unadjusted 0.4% increase in “core” inflation (net of food and energy prices) was reduced to a gain of 0.2%, after adjustment.

Not seasonally adjusted, February 2013 year-to-year inflation for the CPI-U was 1.98%, up from 1.59% in January. The February annual growth rate reflected a four-month high.

Year-to-year, CPI-U inflation would increase or decrease in next month’s March 2013 reporting, dependent on the seasonally-adjusted monthly change, versus a reported 0.31% monthly inflation rate in March 2012. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for March 2013, the difference in March’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the February 2013 annual inflation rate of 1.98%.

Core CPI-U. Seasonally-adjusted “core” CPI-U inflation (net of food and energy inflation) rose by 0.17% month-to-month, versus a gain of 0.25% for the month of January 2013.

Twenty-one of the last twenty-seven months have shown rising year-to-year, or annual, core CPI-U inflation (net of food and energy inflation), with the year-to-year core rate rising to 2.00% in February, versus 1.93% in January. Movement in the core-CPI continued to diverge from that of the core-PPI, which was up year-to-year by 1.71% in February, versus 1.77% in January.

The February 2013 CPI-U year-to-year core rate still was well above the core inflation of 0.61%, in November 2010, when Federal Reserve Chairman Bernanke introduced QE2 in a successful bid to debase the U.S. dollar, with the effect of spiking oil prices. The recent expansion in QE3 into monetization of

Treasury debt already may have created some renewed upside pressures here. The core annual inflation numbers in February 2013 for both the CPI-U and PPI reflected the ongoing impact of higher energy prices in the broad economy (see the graph of CPI-U and PPI core inflation in the *Opening Comments* section).

CPI-W. The February 2013 headline, seasonally-adjusted CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, jumped by 0.81% for the month (up by 0.95% unadjusted). That was against an “unchanged” (down 0.04% at the second decimal point) reading in January, which was down an unadjusted 0.31% for the month.

Unadjusted, February 2013 year-to-year CPI-W inflation was 1.94%, up from a 1.48% annual rate in January.

Chained-CPI-U. The initial reporting of year-to-year inflation for the February 2013 C-CPI-U was 1.80%, versus a 1.46% annual gain in January 2013.

The Chained-CPI-U is the fully substitution-based series that once again is being discussed by the President and Congress as a way to reduce cost-of-living payments for Social Security, etc., by stealth (see *Opening Comments*). This would be an outright fraud on the public, continuing a pattern of similar, earlier successful efforts at deceptive inflation reporting, seen in the past several decades (see the discussion in [Public Commentary on Inflation Measurement](#)).

Alternate Consumer Inflation Measures. Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-based)—annual CPI inflation was roughly 5.4% in February 2013, versus 5.1% in January.

The ShadowStats-Alternate Consumer Inflation Measure (1980-Based), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, rose to about 9.6% (9.62% for those using the extra digit) in February 2013, versus an annual inflation rate of 9.2% in January.

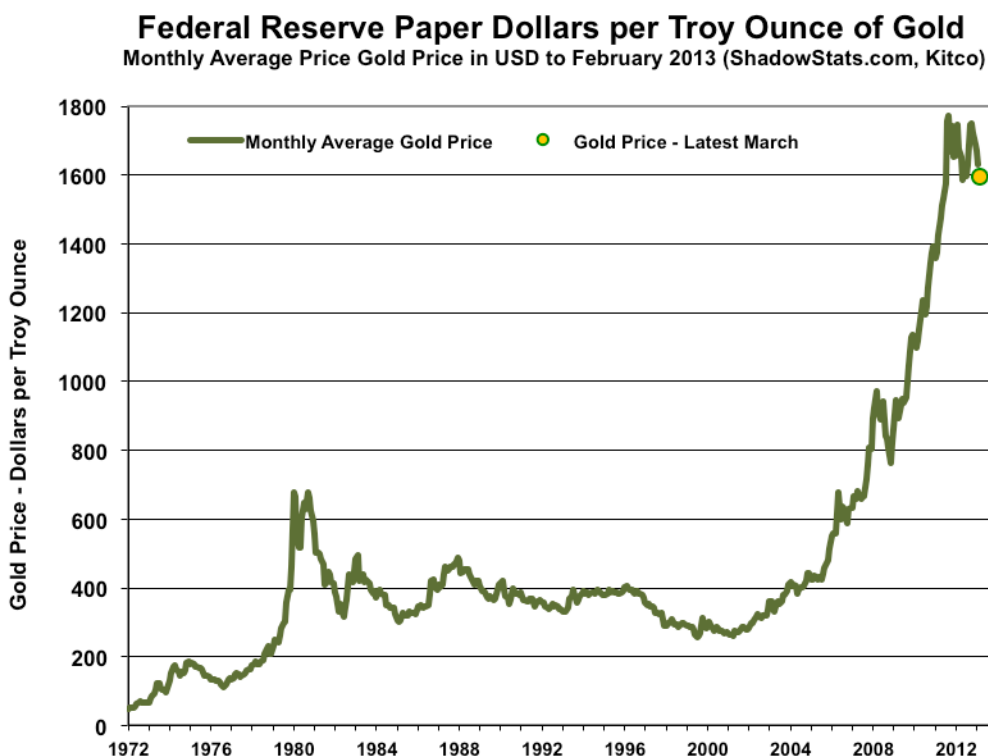
Note: The ShadowStats-Alternate Consumer Inflation Measure adjusts on an additive basis for the cumulative impact on the annual inflation rate of various methodological changes made by the BLS (the series is not recalculated). Over the decades, the BLS has altered the meaning of the CPI from being a 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 ShadowStats adjustment reflect the BLS’s formal estimate of the annual impact of methodological changes; roughly two percentage points reflect changes by the BLS, where ShadowStats 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/ShadowStats 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 \$2,537 per troy ounce, based on

February 2013 CPI-U-adjusted dollars, and \$9,947 per troy ounce, based on February 2013 ShadowStats-Alternate-CPI (1980-Based) adjusted dollars (all series not seasonally adjusted).

In like manner, the all-time high nominal 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 February 2013 CPI-U inflation, the 1980 silver-price peak would be \$148 per troy ounce and would be \$579 per troy ounce in terms of February 2013 ShadowStats-Alternate-CPI (1980-based) adjusted dollars (again, all series not seasonally adjusted).

As shown in Table 1 on page 50 of [Hyperinflation 2012](#), and as updated in Table III on page 40 of [Special Commentary \(No. 485\)](#), 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 ShadowStats-Alternate Consumer Price Measure (1980-Methodologies Base).



Real (Inflation-Adjusted) Retail Sales. Indeed, the bulk of the February surge in nominal (not-adjusted-for-inflation) retail sales reporting for February 2013 was from rising prices. The seasonally-adjusted, headline nominal February gain was 1.06% for the month, following a revised 0.22% (previously 0.13%) monthly gain in January (see [Commentary No. 509](#)).

Based on the February CPI-U estimate, inflation- and seasonally-adjusted February 2013 retail sales gained 0.37%, versus a monthly real increase of 0.19% in January.

Year-to-year, February 2013 real retail sales rose at an annual pace 2.59%, versus a downwardly-revised 2.58% (previously 2.75%) in January. Both the February and January 2013 annual growth rates were at levels that would generate a reliable signal of pending recession, during normal economic times. In the current circumstance, that could be viewed as indicating a pending intensification of the ongoing general downturn.

As has been the case for some time, reporting of actual sales activity continued to be clouded by the use of unusually unstable and questionable seasonal adjustments.

Hitting Pre-Recession Levels. The first graph following shows the level of 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. With February 2013 reporting, the headline real retail sales series has recovered pre-recession levels, the only major economic series to do so, other than the GDP, which did that more than a year ago and has kept rising well beyond the reported activity of retail sales or any other series, since. There is no other major economic series showing the GDP's pattern of official, full recovery and extended new growth, although the pre-benchmark revision, headline industrial production is moving in that direction, (see the *Industrial Production* section).

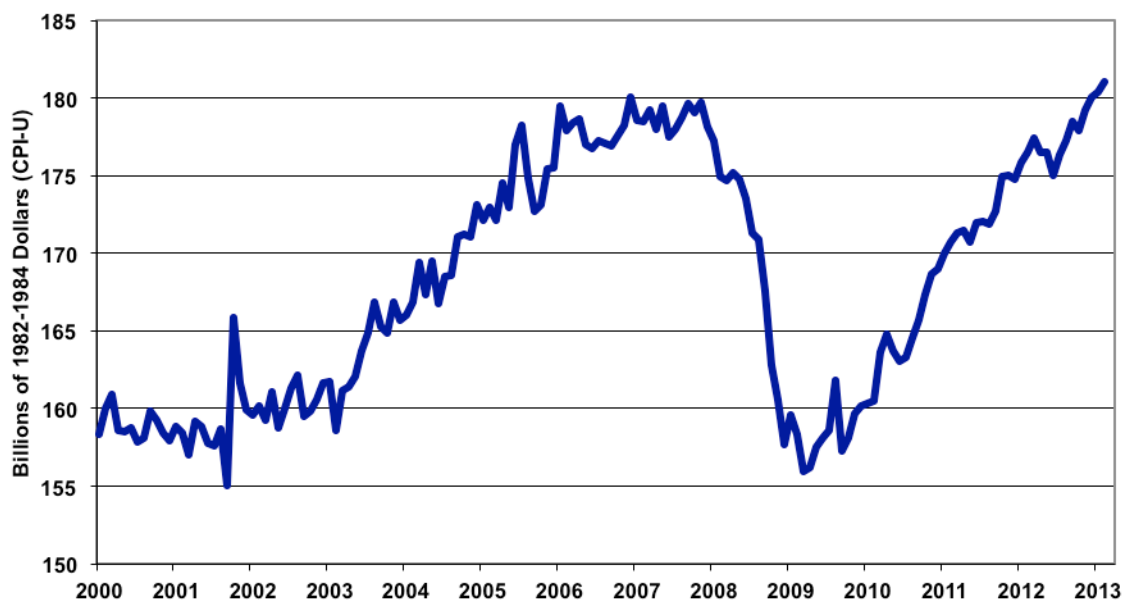
The apparent “recovery” in the real retail sales series (as well as in the GDP) is due to the understatement of the rate of inflation used in deflating retail sales and other series. As discussed more fully in [Hyperinflation 2012](#) and [Special Commentary \(No. 485\)](#), deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth.

With the deflation rates corrected for understated inflation, the recent pattern of real sales activity turns increasingly flat-to-negative, as shown in the latest “corrected” real retail sales graph in the *Opening Comments* section. The corrected graph shows the post-2009 period of protracted stagnation ended, and a period of renewed economic contraction began in second-quarter 2012. The corrected real retail sales numbers use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation instead of the CPI-U.

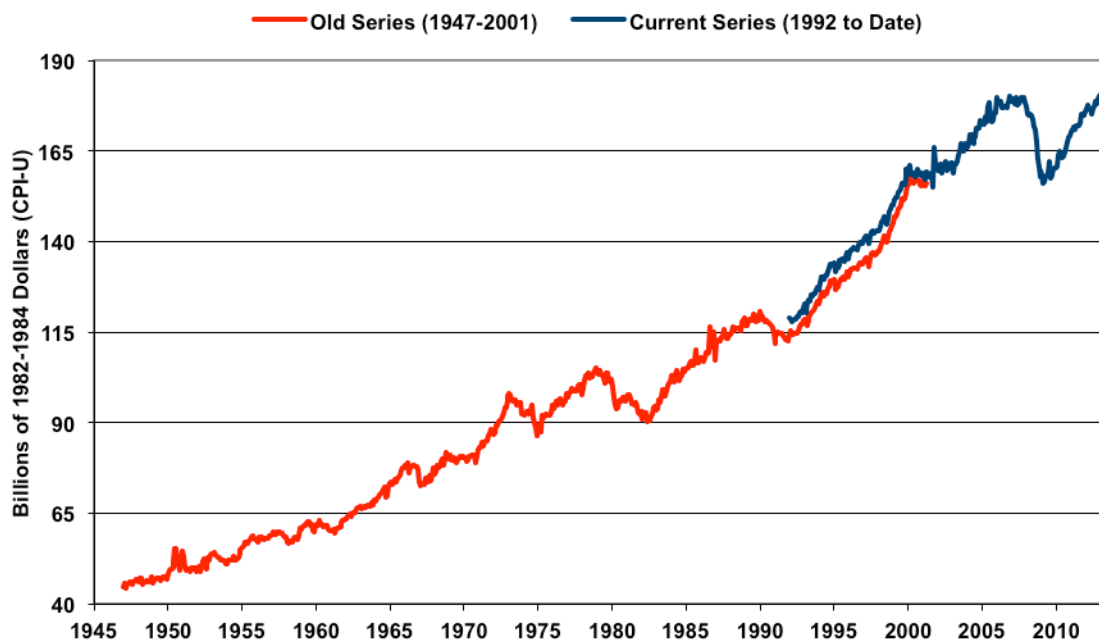
As also discussed, as reviewed in [Commentary No. 509](#), there has been no change in the underlying consumer-liquidity fundamentals. There is nothing that would support a sustainable turnaround in retail sales, personal consumption, housing or general economic activity. There has been and is no recovery, just general bottom-bouncing that is turning down anew.

As official consumer inflation continues its upturn, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—as reflected partially by real earnings difficulties, discussed in the next section, again in the *Special Commentary* linked above and in [Commentary No. 469](#)—these data should trend meaningfully lower, in what eventually will become a formal double-dip recession.

Real Retail Sales (Deflated by CPI-U)
To Feb 2013, Seasonally-Adjusted (ShadowStats.com, Census)



Real Retail Sales (Deflated by CPI-U)
To Feb 2013, Seasonally-Adjusted (ShadowStats.com, Census)

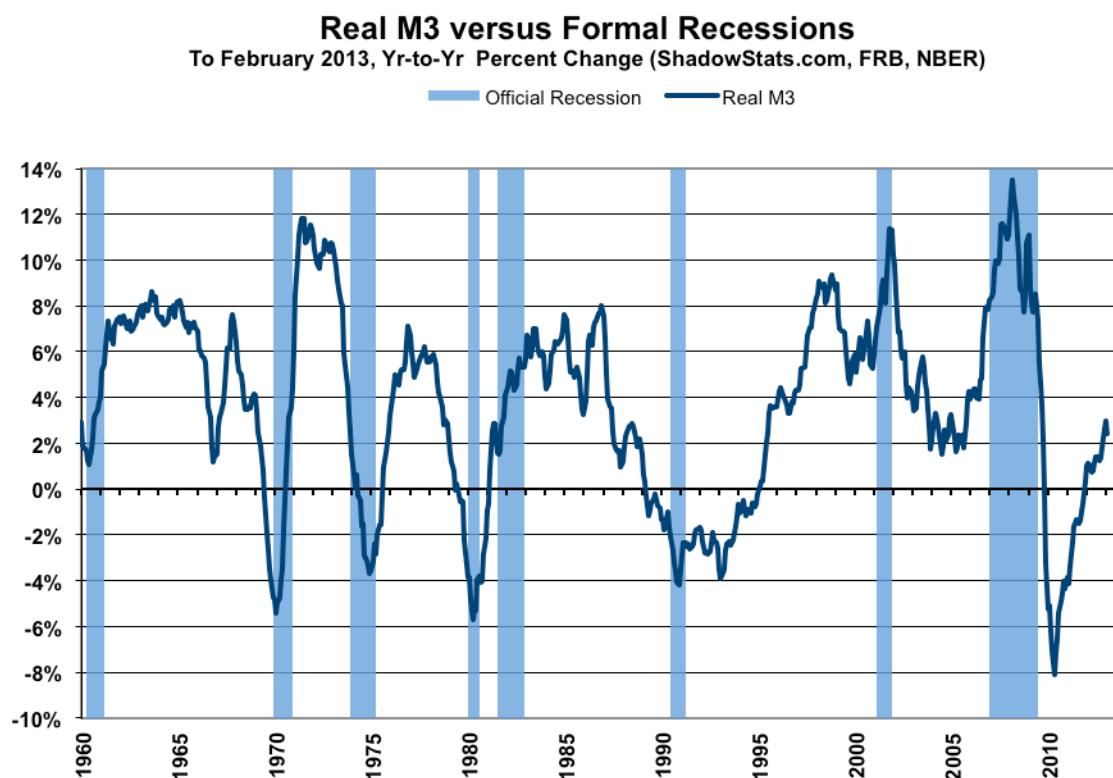


Real (Inflation-Adjusted) Earnings. Coincident with the CPI release for February 2013, today, March 15th, the BLS published real (inflation-adjusted) average weekly earnings for February 2013. The production and nonsupervisory employees series showed that seasonally-adjusted, real average hourly earnings (deflated by the CPI-W) plunged by 0.6% in February 2013, having gained 0.3% in January, but that did not translate into a headline decline in real average weekly earnings.

Instead, the hourly wage decline was offset by a headline 0.6% jump in February's weekly hours, perhaps in line with the stronger showing in industrial production. Accordingly, headline, real average weekly earnings were unchanged for the month of February 2013, against an unrevised unchanged estimate for January.

Unadjusted and year-to-year, February 2013 real earnings gained by 0.1%, versus an annual decline of 0.1% in January. Both the monthly and annual fluctuations in this series are irregular, and current reporting remains well within the normal bounds of volatility.

Graphed in the *Opening Comments* section is the earnings series as officially deflated by the BLS, and as adjusted for the ShadowStats-Alternate CPI measure (1990-based). As the inflation-depressing methodologies of the 1990s began to kick-in, the artificially weakened CPI-W (also used in Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been flat for the last decade. Deflated by the ShadowStats measure, real earnings have been in fairly regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See [Public Commentary on Inflation Measurement](#) for further detail.



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 [Hyperinflation 2012](#), remains in place and continues, despite real annual M3 growth having turned to the upside. As shown in the preceding graph—based on February 2013 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for February 2013 fell to 2.4%, versus an unrevised 3.0% in January. The difference was split between a decline in M3 annual growth and a pick-up in year-to-year CPI-U inflation.

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. Actual post-2009 economic activity has remained at low levels in protracted stagnation, as discussed in [Special Commentary \(No. 485\)](#).

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 unfolding renewed downturn remains nothing more than a continuation and re-intensification of the downturn that began in 2006.

PRODUCER PRICE INDEX—PPI (February 2013)

Energy and “Core” Inflation Pushed February Wholesale Prices Up by 0.7%, Despite a Drop in Food Prices. As reported yesterday, March 14th, by the Bureau of Labor Statistics (BLS), the regularly-volatile, seasonally-adjusted finished-goods producer price index (PPI) for February 2013 rose by 0.66% (up by 0.77% unadjusted), dominated by higher energy costs. That followed a January headline gain of 0.20% (up by 0.57% unadjusted).

The rounded 0.7% seasonally-adjusted (0.8% unadjusted) gain reported in headline monthly inflation for the February 2013 PPI reflected an adjusted 3.0% month-to-month (an unadjusted 3.9%) increase in finished energy goods, partially offset by an adjusted 0.5% (unadjusted 0.6%) decline in food prices, plus an adjusted 0.2% gain (unadjusted 0.1% gain) in “core” inflation.

Unadjusted and year-to-year, February’s total finished-goods PPI rose by 1.71%, from preliminary reporting of a 1.41% annual gain in January.

Annual change in the PPI has weakened on a monthly basis from a 7.08% near-term peak seen in July 2011, after which the annual numbers began going against a year-ago period, when 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 just started to come into play, with the Fed’s expanded easing program putting some upside pressure on oil prices.

Core Finished Goods. “Core” inflation is net of food and energy inflation. The concept of core inflation as a realistic measure of full inflation remains 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).

That said, the core measure, still is useful as an indication of how energy prices, in particular, are impacting the broad economy. For February 2013, the seasonally-adjusted month-to-month core PPI was up by 0.16% (up by 0.05% unadjusted) following a 0.22% (up by 0.44% unadjusted) headline gain in January. Year-to-year, unadjusted February core finished-goods inflation slowed to 1.71% in February, versus 1.77% in January. A comparison of core-PPI with core-CPI-U year-to-year growth in February is graphed in the *Opening Comments and Executive Summary* section.

Intermediate and Crude Goods. Reflecting (and despite) sharply higher energy costs, on a month-to-month basis, seasonally-adjusted February 2013 intermediate-goods prices rose by 1.3%, following an unchanged reading in January, but February crude-goods prices were down by 0.3%, following a 0.8% gain in January.

Year-to-year inflation in unadjusted February 2013 intermediate goods increased to 1.2%, up from a 0.3% annual gain in January. Year-to-year inflation in February crude goods rose by 0.9%, following an annual gain of 1.5% in January.

INDEX OF INDUSTRIAL PRODUCTION (February 2013)

Pending Benchmark Revisions Will Recast Production Activity Back to 1972. The estimate of February’s headline 0.7% increase in monthly industrial production was produced in the context of likely significant downside revisions to historical activity. A major benchmark revision, to be published on March 22nd, will revamp historical data going back four decades, based on 2011 annual surveys of mining and manufacturing, revised seasonal adjustments and new estimation methodologies. Since the Federal Reserve already knows what those revisions are, it is not likely that the just-reported monthly activity will go through massive changes, other than just in the general restatement of the level of activity in the series. The important revisions will be in early 2012 and before.

February 2013 Industrial Production. Today’s (March 15th) release by the Federal Reserve Board of seasonally-adjusted February 2013 industrial production showed a monthly headline gain of 0.72% (a gain of 0.89% net of prior-period revisions), versus a revised 0.05% gain (previously a 0.10% contraction) in January. All these numbers may change on March 22nd.

The 0.7% monthly gain in aggregate production reflected a 0.8% gain in manufacturing, a 1.6% gain in utilities, and a 0.3% decline in mining, the third straight monthly decline there.

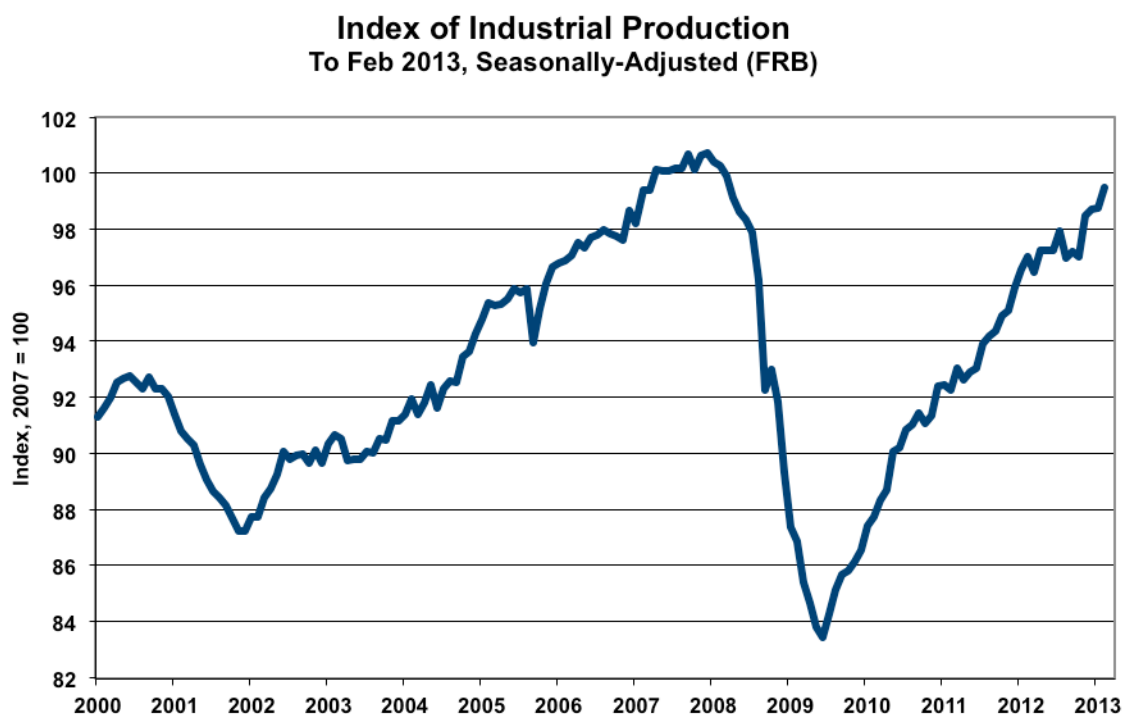
Year-to-year growth for February rose to 2.52%, from a revised 2.28% (previously 2.10%) in January 2013. The last time that year-to-year production growth slowed to the levels seen in the last several months, was at the formal onset of the 2007 recession.

Current annual growth remains well off the recent relative peak annual growth of the series at 8.13%, in June 2010, going against the official June 2009 trough of the economic collapse. Indeed, the year-to-year

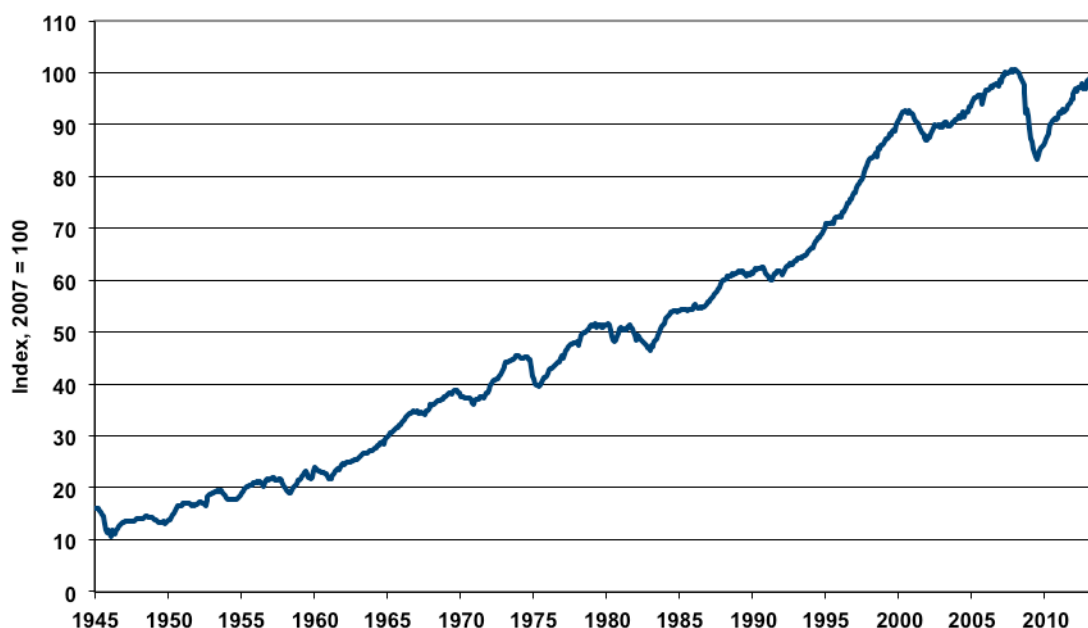
contraction of 15.15% seen in June 2009, at the end of second-quarter 2009, was the steepest annual decline in production growth since the shutdown of war-time production following World War II.

The “recovery” in industrial production is reflected in the following graphs. Both graphs show the monthly level of the production index. The first of these shows recent historical detail for the period beginning in 2000, the second shows the same data in historical context since World War II. Although official production levels have moved higher since the June 2009 trough of the official 2007 recession, unlike the GDP, the official series still remains somewhat shy showing a full recovery.

Corrected for the understatement of inflation used in deflating portions of the industrial production index, the series has shown more of a bottom-bouncing and recent-downturn pattern, since 2009, where it appears to have topped out coming into 2012 and trending lower since second-quarter 2012. The corrected production series is shown in the *Opening Comments* section. Please note also that index base for those graphs, both the corrected graph and the accompanying graph based on official reporting, is January 2000 = 100, instead of the Federal Reserve’s official 2007 = 100, used in the graphs here.



Index of Industrial Production To Feb 2013, Seasonally-Adjusted (FRB)



WEEK AHEAD

Weaker Economic and Stronger Inflation Data Should Surface in the Near-Term. Reflecting structural liquidity constraints on the consumer, and in anticipation of the likely negative impact, of expanded QE3 and the still-ongoing fiscal crisis/debt-ceiling negotiations, on the U.S. dollar in the currency markets, reporting in the months and year ahead generally should reflect higher-than-expected inflation and weaker-than-expected economic results. Increasingly, previous estimates of economic activity should revise lower, particularly in upcoming annual benchmark revisions for industrial production (March 22nd—back to 1972), retail sales (May 31st) and GDP (July 31st—comprehensive overhaul back to 1929).

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](#).

Residential Construction (February 2013). The estimate of housing starts activity for February 2013 is due for release on Tuesday, March 19th, by the Census Bureau. Chances remain good, despite developing market expectations of a small gain, that any reported monthly change in February's activity will continue the usual month-to-month pattern of being statistically-insignificant.

In the wake of a 75% collapse in activity from 2006 through 2008, and an ensuing four-year pattern of housing starts stagnation at historically low levels, there remains no chance of a sustainable turnaround in the housing construction market, unless there is a fundamental upturn in consumer and banking liquidity conditions. That has not happened (see the consumer graphs in the prior [Commentary No. 509](#)).

Existing- and New-Home Sales (February 2013). February existing-home sales are due for release on Thursday, March 21st, from the National Association of Realtors, while the February new-home sales report from the Census Bureau is not due out until Tuesday, March 26th. As is the usual circumstance with these highly volatile and unstable series, whether existing or new sales, an entrenched pattern of stagnation likely has continued for both, with the pending reports of monthly change in sales activity not likely to be statistically-significant, particularly in the context of prior-month revisions.

Index of Industrial Production (Annual Benchmark Revision). The annual benchmark revision to industrial production is due for release on Friday, March 22nd. Where the new estimates will go back to 1972, a revised pattern of weaker historical economic activity is likely. Do not be misled by the revisions be re-adjusted automatically higher, where the index is set equal to 100 as of 2007. That will be corrected for in the ShadowStats analysis following the release. The most meaningful revisions will be in the post-2007 period.
