

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

COMMENTARY NUMBER 523
April Retail Sales, U.S. Dollar

May 13, 2013

**April Retail Sales Gain Was Statistically-Insignificant,
Annual Growth Still Signaled Intensified Economic Downturn**

Dollar Fundamentals Remain Abysmal

PLEASE NOTE: The next regular Commentary is scheduled for Wednesday, May 15th, covering the April PPI and industrial production, followed by a Commentary on Thursday, May 16th, which will cover the April CPI and related real retail sales and earnings, and housing starts.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Beyond Central Bank and Central Government Control, Underlying Fundamentals Promise a Much Weaker U.S. Dollar. The U.S. dollar has shown some relative currency strength in recent days, with positive press continuing as ShadowStats puts this May 13th *Commentary* to bed. Most of that dollar strength is credited to relative currency debasements in the rest of the world, actions that are coincident with planted stories and jawboning that the Fed has been exploring ways to regain its pre-Treasury-debt-monetization virginity. The Fed, however, has backed itself into a corner. With the

economic and systemic-solvency (banking system) crises continuing, the chances of the Fed limiting its QE3 efforts remain negligible. More likely is expanded QE3, in response to new systemic woes. At the moment, however, the Fed's primary strategy appears to be set at jawboning in support of the dollar.

Major fundamentals have not changed at all and are discussed below. Whatever upside volatility is seen now in the U.S. dollar, and in related downside price movements for precious metals and oil, should prove to be short-lived. The U.S. dollar still faces a longer-term, severe decline in value against the major Western currencies.

The Dollar and Deficit Do Matter! Purportedly Arthur F. Burns—Richard Nixon's Federal Reserve Chairman—suggested the policy guideline that the deficit and the dollar do not matter. Expressed along the lines that, "if you ever run into trouble, you can ignore both the U.S. dollar and the federal budget deficit; there is not a single vote in either of them," that concept was embraced by Alan Greenspan and by almost every administration since 1970.

The culmination of fiscal and monetary policies based on that short-term thinking was seen in the panic of 2008 and in the still-unfolding economic, fiscal and systemic-solvency crises. Unfortunately, for purposes of stabilizing systemic solvency and the economy, over the long-term, the dollar and the deficit do matter. For decades, the political miscreants in Washington abused the U.S. dollar and fiscal policy, milking dry whatever gains could be had in supporting a lifestyle of politics-as-usual, borrowing economic growth and short-term voter happiness from the future. The miscreants at the Fed did the same with monetary policy. The implications now for the economic and financial future remain bleak. The federal government and the Federal Reserve are unable to alter a disastrous course, having exhausted their traditional and even some nontraditional escape options.

It is relatively easy for the Federal Reserve, at present, to create short-term selling pressure against the U.S. dollar with quantitative easing, low interest rates and jawboning. That selling pressure can be intensified and/or protracted with expanded dollar-debasement efforts. Jawboning, intervention and shifting away from short-term anti-dollar policies can provide boosts to the U.S. dollar, but only on a short-lived, temporary basis.

Even with the deliberate, dollar-damaging policies of the Federal Reserve removed, though, it is extremely difficult for the U.S. central bank or central government to provide fundamental long-term support for the U.S. currency, to turn the dollar higher for the long haul, fundamentally. Simply put, there is a lack of political ability or willingness to address the longer-range structural problems inherent with the trade deficit and budget deficit, and the related constraints on the troubled and faltering economy.

Decades of severe trade imbalances helped to trigger structural impairments to consumer income and to employment in the broad economy. Those issues were compounded by decades of misguided monetary and credit policies aimed at borrowing economic growth from the future, through extreme debt expansion. At the same time, uncontained and now uncontrollable fiscal excesses by the federal government established long-range sovereign-solvency issues. There are only two ways for the U.S. government to meet its existing financial obligations. First is a severe restructuring of fiscal policy, including restructuring of underfunded social programs so that they are made solvent and sustainable for the long-term. Second is printing the money the government cannot raise otherwise. In its quantitative easings, QE2 and QE3, the Fed already has started to fund the Treasury, monetizing debt. It is in the printing of money that hyperinflation has its roots (see [Hyperinflation 2012](#)).

Economic Reporting. Despite all the happy talk of how the stock market and the economy are back to normal, signaling good times ahead, this week's reporting of April industrial production and residential construction are likely to show ongoing economic difficulties (see *Week Ahead*). Today's headline gain in April retail sales was statistically insignificant, and the inflation-adjusted level of annual retail sales growth continued to signal a renewed or re-intensifying economic downturn.

Retail Sales of Recent Years Should Be Weaker than Previously Reported in Upcoming Benchmark Revision. Today's 0.09% headline gain in April 2013 retail sales surprised the markets on the upside, but the monthly change was statistically insignificant. The monthly decline in March, however, deepened in revision to a statistically-significant 4.5%. Year-to-year, April 2013 retail sales rose by 3.65%, versus an upwardly revised 2.97% in March. That nominal (not-adjusted-for-inflation) April annual growth rate remained unusually weak for the post-June 2009 official recovery period

Although the real (inflation-adjusted) April month-to-month gain in sales will be stronger than the nominal headline estimate, net of a likely contraction in headline CPI, the inflation-adjusted level of annual growth will continue to signal a renewed or re-intensifying economic downturn.

All the numbers in the April retail sales report are subject to change in the annual benchmark revision to the series, due for release on May 31st. As with other major economic series, historical revisions should show weaker economic growth than previously estimated, particularly in 2011 and early-2012.

Consumer buying of goods and services remains constrained by the intense, structural-liquidity woes besetting the consumer. Without real growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply cannot sustain real growth in retail sales, let alone in the broader personal consumption measure component of GDP. In like manner, the consumer has lacked the ability to fuel the purported post-June 2009 recovery in economic activity.

[Further details on April retail sales are found in the Reporting Detail section.]

HYPERINFLATION WATCH

Hyperinflation Outlook—Unchanged. *This synopsis is unchanged from prior Commentary No. 522 of May 9th. The summary outlook here is intended for new subscribers and for readers looking for a condensed version of the broad overview of economic, inflation and financial circumstances, or who otherwise are not familiar with the hyperinflation report or special commentaries, linked below. Those latter 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, the next fully-updated hyperinflation report is targeted for publication in mid-to-late June, following publication in May of related underlying *Special Reports*, a new report on “employment/unemployment and the economy” in early-June, which will follow further updated and expanded versions of the *Money Supply* special report and the *Public Commentary on Inflation*.

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 (see [Commentary No. 519](#), and [Public Comment on Inflation](#)). 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.

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 still proactively is monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise.

Before the mid-April rout in gold prices, there had been mounting hype about the Fed potentially pulling back on its “easing” and a coincident Wall Street push to talk-down gold prices. Those factors still appear to be little more than hype, designed for jawboning to support the U.S. dollar and to soften gold, in advance of the still-festering crises in the federal-budget and debt-ceiling negotiations. Despite orchestrated public calls for “prudence” by the Fed, the underlying and deteriorating financial-system and economic instabilities have self-trapped the Fed into an expanding-liquidity or easing role that likely will not be escaped until the ultimate demise of the U.S. dollar. Further complicating the circumstance for the U.S. currency is the increasing tendency of major U.S. trading partners to move away from using the dollar in international trade, such as seen most recently in the developing relationship between France and China.

The Fed’s recent and ongoing liquidity actions themselves suggest a signal of deepening problems in the financial system. Mr. Bernanke admits that the Fed can do little to stimulate the economy, but it can create systemic liquidity and inflation. Accordingly, the Fed’s continuing easing moves appear to have been primarily an effort to prop-up the banking system and also to provide back-up liquidity to the U.S. Treasury, under the political cover of a “weakening economy.” Mounting signs of intensifying domestic banking-system stress are seen in softening annual growth in the broad money supply, despite a soaring

pace of annual growth in the monetary base, and in global banking-system stress, as reflected in the recent Cyprus crisis and continuing aftershocks.

Both Houses of Congress recently put forth outlines of ten-year budget proposals that are shy on detail. The ten-year plan by the Republican-controlled House proposes to balance the cash-based deficit as well as to address issues related to unfunded liabilities. The plan put forth by the Democrat-controlled Senate does not look to balance the cash-based deficit. Given continued political contentiousness and the use of unrealistically positive economic assumptions to help the budget projections along, little but gimmicked numbers and further smoke-and-mirrors are likely to come out of upcoming negotiations. With the Administration's budget for fiscal-year 2014 released, these issues should be coming to a head very soon. The temporary suspension of the statutory federal debt limit expires May 18th, and Congressional action to raise the debt ceiling is mandatory before then, with the current (May 7th) debt more than \$350 billion above that debt limit. There still appears to be no chance of a forthcoming, substantive agreement on balancing the federal deficit.

Indeed, 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 fully addressing the GAAP-based deficit that hit \$6.6 trillion in 2012, let alone balancing the popularly-followed, official cash-based accounting deficit that was \$1.1 trillion in 2012 (see [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 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. A dollar-selling panic is likely this year—of reasonably high risk in the next month or so—with its effects and aftershocks setting hyperinflation into action in 2014. Gold remains the primary and long-range hedge against the upcoming debasement of the U.S. dollar, irrespective of any near-term price gyrations in the gold market.

The rise in the price of gold in recent years was fundamental. The recent panicked sell-off in gold was not. With the underlying fundamentals of ongoing dollar-debasement in place, the upside potential for gold, in dollar terms, is limited only by its inverse relationship to the purchasing power of the U.S. dollar (eventually headed effectively to zero). Again, physical gold—held for the longer term—remains as a store of wealth, the primary hedge against the loss of U.S. dollar purchasing power.

REPORTING DETAIL

RETAIL SALES (April 2013)

Despite Upside Surprise for the Markets, April's Headline Retail Gain Was Not Statistically Significant. Today's 0.09% headline gain in April retail sales surprised the markets on the upside, but the monthly change was statistically insignificant. Although the month-to-month gain in sales will appear to be stronger, net of the impact of a likely contraction in headline CPI, the inflation-adjusted level of annual growth will continue to signal a renewed or re-intensifying economic downturn.

Actual activity in consumer buying of goods and services remains constrained by the intense, structural-liquidity woes besetting the consumer. Without real growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply cannot sustain real growth in retail sales, let alone in the broader personal consumption measure in GDP. In like manner, the consumer has lacked the ability to fuel the purported post-June 2009 recovery in economic activity.

Otherwise, highly variable and unstable seasonal factors clouded activity in the February 2013-to-April 2013 period, and in March 2012-to-April 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 could distort the reporting of current headline numbers. That monthly comparability, however, comes into balance once per year, with annual revisions, as next seen on May 31, 2013.

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 in [Hyperinflation 2012](#) and [Special Commentary \(No. 485\)](#).

Benchmark Revisions. All the retail sales numbers are subject to change in the annual benchmark revision to the series, due for release on Friday, May 31st. In parallel with other major economic series, historical revisions should show weaker retail sales growth than previously estimated in recent years, particularly in 2011 and early-2012. Per the Census Bureau, the revisions will “reflect the introduction of a new sample, new seasonal factors and results of the 2011 Annual Retail Trade Survey.”

Nominal (Not-Adjusted-for-Inflation) Retail Sales. Not adjusted for a likely monthly decline in headline April consumer inflation, this morning's (May 13th) report on April 2013 retail sales—issued by the Census Bureau—indicated a statistically-insignificant, seasonally-adjusted monthly gain of 0.09% (a gain of 0.18%, before prior-period revisions) +/- 0.4% (all confidence intervals are at the 95% level). The

April increase followed a revised but statistically-significant March month-to-month decline of 0.45% (previously 0.35%) +/- 0.2%.

Year-to-year, April 2013 retail sales rose by 3.65% +/- 0.8%, versus an upwardly revised 2.97% (previously 2.82%) in March. The nominal April annual growth rate remained unusually weak for the post-June 2009 official recovery period and almost certainly will show a level of inflation-adjusted growth that still would signal an unfolding recession in normal economic times.

Nonetheless, the pattern of growth here remains distorted by continuing issues with unstable concurrent seasonal-adjustment factors, and the resulting lack of fully-consistent, seasonally-adjusted numbers being published by the Census Bureau.

Core Retail Sales. In April 2013, seasonally-adjusted monthly grocery-store sales were down by 0.50%, while gasoline-station sales fell by 4.66%, reflecting not-seasonally-adjusted lower gasoline prices, exacerbated by negative impact from seasonal adjustments. 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: April 2013 versus March 2013 seasonally-adjusted retail sales series—net of total grocery store and gasoline station revenues—rose by 0.85%, versus the official gain of 0.09%.

Version II: April 2013 versus March 2013 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—increased by 0.66%, versus the official gain of 0.09%.

Real (Inflation-Adjusted) Retail Sales. As discussed in the *Week Ahead* section, headline April 2013 CPI-U inflation likely will contract by 0.3%, plus or minus, for the month. If it does, the headline real (inflation-adjusted) estimate of the April 2013 monthly gain in retail sales would increase from the headline nominal gain, by the amount of the inflation decline. For example, with a 0.3% headline decline in the CPI-U, the rounded headline gain of 0.1% in nominal retail sales would become a real retail sales change of the nominal sales change, minus the headline CPI-U, or $0.1\% - (-0.3\%)$, or $0.1\% + 0.3\%$, or 0.4%.

Separately, again, real year-to-year change likely will remain in the range of historical growth that traditionally signals pending recession. In the current circumstance, that would mean an ongoing signal of pending, intensifying downturn.

The real retail sales detail will be provided in the May 16th *Commentary*, which will cover the release of April 2013 CPI-U.

WEEK AHEAD

Weaker Economic and Inflation Data in the Week Ahead. Constrained by a down-month for gasoline and oil prices, which will be exacerbated by sharply-negative seasonal adjustments, this week's April 2013 inflation numbers should show relatively large, seasonally-adjusted monthly contractions. That said, the highly irregular oil and gasoline price movements appear, once again, to have bottomed out. The distortions from increasingly irrelevant, shifting and severely-negative gasoline and oil price seasonal adjustments should continue in next month's May reporting, flipping to positive-side distortions in June and July's adjusted reporting.

Beyond May, reflecting the still-likely negative impact of the continuing and expanded QE3, and the still-festering fiscal crisis/debt-ceiling negotiations on the U.S. dollar in the currency markets, reporting in the ensuing months and year generally should reflect much higher-than-expected inflation (see the U.S. dollar comments in the *Opening Comments* section).

Where expectations for economic data in the week ahead appear to have softened, weaker-than-expected economic results still remain likely, given intensifying structural liquidity constraints on the consumer. Increasingly, previous estimates of economic activity should revise lower, particularly in upcoming annual benchmark revisions, as was seen for industrial production, and as pending for new orders for durable goods (May 17th), retail sales (May 31st), the trade deficit (June 4th), construction spending (July 1st) and the GDP (July 31st—comprehensive overhaul and redefinition back to 1929).

Reporting Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems continue with most major economic series. Headline reporting issues remain tied largely to systemic distortions of seasonal adjustments. Distortions have been induced by the still-ongoing economic turmoil of the last six-to-seven years, which has been without precedent in the post-World War II era of modern economic reporting. These distortions provide particularly unstable reporting results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

With an increasing trend towards intensifying downside surprises in near-term economic reporting, recognition of an intensifying double-dip recession should continue to gain. Nascent concerns of a mounting inflation threat, though muted, increasingly are being rekindled by the Fed's monetary policies. Again, though, significant inflation shocks are looming in response to the fiscal crisis and a likely, severe negative response in the global currency markets against the U.S. dollar.

The political system and Wall Street would like to see the issues disappear, and the popular media do their best to avoid publicizing unhappy economic news, putting happy spins on otherwise negative numbers. Pushing the politicians and media, the financial markets and their 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, No. 485: Special Commentary*](#) and subsequent *Commentaries*.

Index of Industrial Production (April 2013). The release of the April 2013 index of industrial production is scheduled for Wednesday, May 15th, by the Federal Reserve Board. With inventories still too high for existing demand levels, an outright monthly contraction in production—worse than solidifying negative expectations—is a fair bet for April reporting. Reporting in this series remains extremely volatile and subject to significant monthly revisions. Recent reporting generally has been stronger than would be suggested by the underlying fundamentals.

Producer Price Index—PPI (April 2013). Also scheduled for release on Wednesday, May 15th, by the Bureau of Labor Statistics (BLS), is the April 2013 PPI. Seasonal adjustments will hit energy costs heavily on the downside, on top of already-contracting unadjusted prices. Depending on the oil contract followed, oil prices, on average, were down 0.1-to-5.7 percentage points for the month. Accordingly, adjusted energy inflation should be enough of a drag to pull the adjusted PPI into sharp monthly contraction.

Consumer Price Index—CPI (April 2013). The release by the Bureau of Labor Statistics (BLS) of the April 2013 CPI numbers is scheduled for Thursday, May 16th. The CPI could come in at or below the developing, negative market consensus.

Average gasoline prices declined by 3.7% month-to-month, on a not-seasonally-adjusted basis, per the Department of Energy. As with the PPI, the BLS seasonal adjustments should push gasoline prices and other energy costs into an even steeper decline. As recently revised, an unadjusted monthly gain of 1.8% in April 2012 gasoline prices was turned to a 2.9% decline by downside seasonal adjustments. Similar effects in the April 2013 number would generate a negative 0.4-percentage-point contribution to the aggregate CPI, by itself, which appears to be below developing expectations for the headline aggregate number. There should be some offsetting upside inflation pressures from food prices and core inflation.

Year-to-year, CPI-U inflation would increase or decrease in April 2013 reporting, dependent on the seasonally-adjusted monthly change, versus a reported “unchanged” monthly inflation rate in April 2012. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for April 2013, the difference in April’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the March 2013 annual inflation rate of 1.47%. For example, a headline 0.3% monthly decline would reduce April annual inflation to about 1.2%.

Residential Construction (April 2013). Also, on Thursday, May 16th, the estimate of April housing starts activity will be published by the Census Bureau. Despite market expectations of a small headline decline, reported month-to-month changes likely will continue to be statistically-insignificant, with ongoing stagnation in activity for single-unit housing starts.

In the wake of a 75% collapse in aggregate activity from 2006 through 2008, and an ensuing four-year pattern of housing starts stagnation at historically low levels, little has changed. There remains no chance of a near-term, sustainable turnaround in the housing construction market, unless there is a fundamental upturn in consumer and banking liquidity conditions. That has not happened.