

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

**COMMENTARY NUMBER 525**

**April CPI, Housing Starts**

**May 17, 2013**

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**Inflation Remains Very Much a Threat**

**April Year-to-Year Inflation: 1.1% (CPI-U), 0.9% (CPI-W), 8.7% (ShadowStats)**

**CPI Decline Boosted Real Retail Sales, Re-Intensifying Recession Still Signaled**

**April Housing Starts Showed Statistically-Significant Plunge**

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*PLEASE NOTE: The next regular Commentary is scheduled for Friday, May 24th, covering benchmark revisions and April reporting of new orders for durable goods, and April existing- and new-home sales. A special assessment of federal budget deficit and U.S. dollar prospects will be addressed in a Special Commentary tentatively set for May 22nd.*

*Best wishes to all — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Even with Faltering Economic Data, “Low” Inflation Should Not Be a Long-Lived Issue.** Despite the headlines of contracting monthly inflation and low annual inflation, inflation remains the primary economic and financial threat to the United States, going forward. Separate from the issues of the federal government understating actual consumer inflation by three-to-seven percentage points (see [Public Comment on Inflation Measurement](#)), the harsh reality remains that the United States is locked into fiscal and monetary crises from which there are no politically-expedient or feasible escapes, other than much higher inflation.

Deepening economic woes in a non-recovering economy, combined with continued solvency issues in the banking system, have locked the Fed into its existing quantitative easing, along with prospects of even greater “easing” in the future as systemic stability continues to deteriorate. This is despite the Federal Reserve’s mind games with the financial markets as to the possible reduction of purchases of U.S. Treasury securities. Jawboning is a regular Fed policy tool. It is inexpensive, in that it can move markets as desired, buying some time without the U.S. central bank actually having to do anything.

The extreme budget-deficit issues have not been resolved, let alone addressed; the Fed is locked into its “easing” for the foreseeable future; inflation remains a severe threat; the economy has not recovered, and it is turning down anew. These issues will be discussed in some detail, along with related prospects for the declining value of the U.S. dollar and for the rising prices of monetary precious metals, in next week’s *Special Commentary*, effectively a preview of major issues in the pending update of [Hyperinflation 2012](#).

In general, the broad outlook has not changed a bit. Keep in mind, though, that surprise developments in the areas discussed above usually are negative, not positive factors for the general trends. Consider the negative shift in the tone of the popular press towards unfolding scandals tied to the Obama administration. Anything that hints at less political stability for a country tends to be a negative force against the related sovereign currency. The U.S. dollar, for example, suffered heavily-negative volatility during the Watergate crisis of the 1970s.

**April 2013 Inflation and Economic Activity.** Headline consumer and wholesale inflation both contracted for a second month in April, and annual inflation slowed. The irregular volatility with inflation reporting involves increasingly unstable seasonal-adjustment factors in the monthly numbers, with gyrating oil and gasoline prices contributing wide swings in related energy prices and broad inflation measures on an annual basis. Nonetheless, energy prices remain high and likely are headed much higher, partially in response to what should be renewed heavy foreign-exchange selling pressures against the U.S. dollar.

April housing starts turned down sharply, possibly in some catch-up to overstated activity in earlier months. Running contrary to common experience here, however, the sharp monthly decline in housing starts activity was statistically-significant, while the corresponding year-to-year increase was not.

If the housing starts pattern continued, second-quarter activity would be weaker than that of the first-quarter, a pattern also suggested in the reporting of April industrial production (see [Commentary No. 524](#) for production detail). Of continuing significance, annual growth in both real retail sales and industrial production has fallen to, or remains at levels that would signal pending recession during normal economic times. In the present circumstance, these “recession” signals can best be read as indicators of a re-intensifying downturn in an ongoing, severe economic contraction.

Discussed in the *Week Ahead* section, the general reporting trend of economic data—for at least the next several months—likely will be to the downside of expectations, along with meaningful downside benchmark revisions to various series such as the GDP.

**Consumer Price Index—April 2013.** Headline, monthly consumer inflation contracted for a second month in April, with slowing annual inflation. The irregular volatility with inflation reporting, again, involved increasingly unstable seasonal-adjustment factors in the monthly numbers, along with gyrating oil and gasoline prices. The negative energy-related seasonal adjustments in the monthly CPI will

continue in May, but they will swing to the positive side in June. Energy prices remain high and likely are headed much higher in the months ahead, in response to what should become mounting foreign-exchange selling pressures against the U.S. dollar. Heavy selling of the U.S. dollar against the other major Western currencies would tend to boost domestic consumer inflation, rapidly, with quick spikes in the prices of oil and gasoline.

While the softer year-to-year inflation numbers are prepared consistently and are not seasonally adjusted, there are other issues in terms of methodological changes—made to the series in recent decades—that were designed to understate the government’s reporting of consumer inflation, as discussed in the [Public Comment on Inflation Measurement](#).

Headline, seasonally-adjusted CPI-U for April 2013 fell by 0.37% for the month (down by 0.10% unadjusted), versus a seasonally-adjusted 0.18% monthly decline in March (up by 0.26% unadjusted). Not seasonally adjusted, April year-to-year inflation for the CPI-U was 1.06%, down from 1.47% in March.

Seasonally-adjusted April “core” CPI-U inflation (net of food and energy inflation) rose by 0.05% (0.08% unadjusted) month-to-month, versus an adjusted 0.11% (0.27% unadjusted) gain in March. Year-to-year core eased to 1.72% in April, versus 1.89% in March. The 1.72% CPI core was in line with the core-PPI growth, which held at 1.71% for the third month. The graph comparing annual core-PPI with core-CPI-U inflation is located in the *CPI* portion of the *Reporting Detail* section.

Headline April CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, declined by 0.49% for the month (down by 0.16% unadjusted) versus a seasonally-adjusted monthly decline in March of 0.25% (up by 0.28% unadjusted). Unadjusted, April year-to-year CPI-W inflation was 0.85%, down from 1.33% in March.

Initial reporting of year-to-year inflation for the April Chained-CPI-U was 1.09%, down from 1.41%, in March. Contrary to the usual potential-deficit-saving hype for the “lower-inflation” C-CPI, April C-CPI annual inflation was higher than either the CPI-U or the CPI-W.

Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-based)—annual CPI inflation was roughly 4.5% in April, versus 4.9% in March, while the ShadowStats-Alternate Consumer Inflation Measure (1980-Based) fell to about 8.7% in April, versus an annual inflation rate of 9.1% in March.

***Real (Inflation-Adjusted) Retail Sales—April 2013.*** The gain in April 2013 real (inflation-adjusted) retail sales was greater than the headline nominal (not-adjusted-for inflation) growth, because the headline April CPI-U contracted by 0.37% in the month. The headline monthly nominal sales gain of 0.09% for April, accordingly, reflected a real gain of 0.46% (0.09% sales with the subtraction of the negative inflation rate being the same as adding 0.37% to 0.9%, or a real increase of 0.46% for the month), following a revised 0.27% monthly real decline in March. Year-to-year, April 2013 real retail sales rose at an annual pace of 2.52%, versus an upwardly revised 1.47% in March. In normal economic times, the recent levels in annual real growth would be signaling a downturn in broad economic activity. In the current circumstance, this signal serves as an indicator of a pending re-intensification of the economic contraction. As official consumer inflation resumes its seasonally-adjusted upturn, and as overall retail

sales continue to suffer from an intensifying consumer-liquidity squeeze, these data should trend meaningfully lower, in what eventually will gain recognition as a formal, double-dip recession.

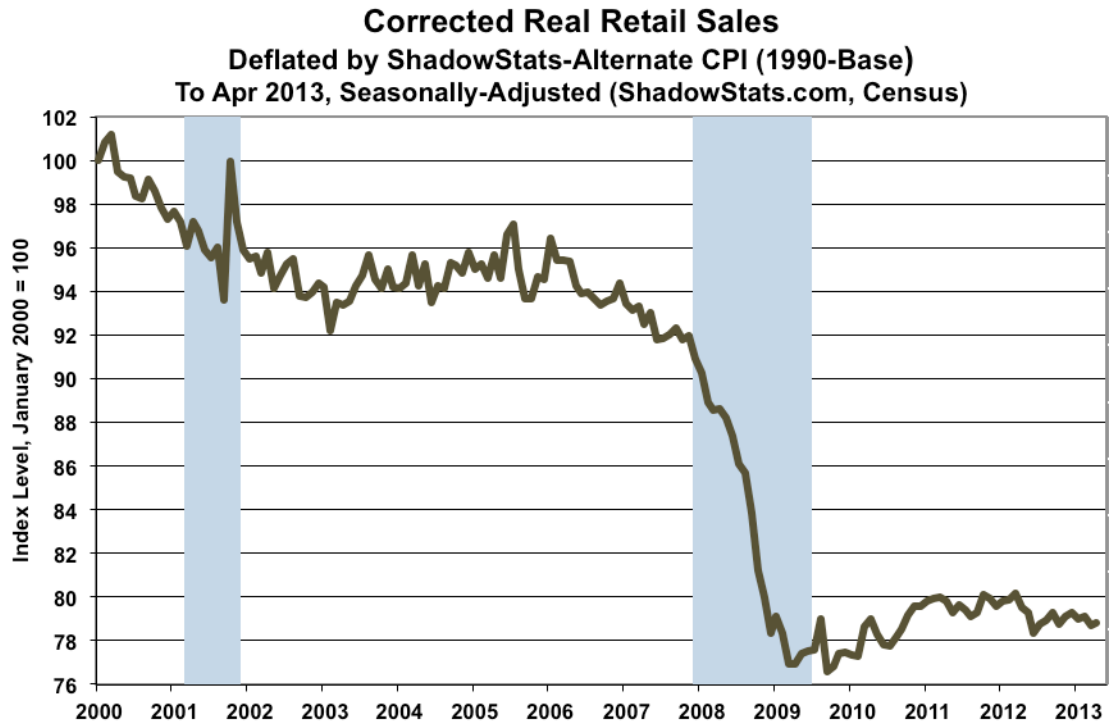
There has been no change in the underlying consumer-liquidity structural problems that are constraining consumption. There is nothing that would support a sustainable turnaround in retail sales, personal consumption, housing or general economic activity. There never was a broad economic recovery, and there is no recovery underway, just general bottom-bouncing that is turning down anew.

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 unofficial economic collapse from 2006 into 2009. The two retail sales charts are indexed to a consistent scale.





***Real (Inflation-Adjusted) Average Weekly Earnings—April 2013.*** Before inflation adjustment, the production and nonsupervisory employees series showed a seasonally-adjusted 0.2% monthly contraction for April 2013 average weekly earnings, versus a 0.1% monthly gain in March. Net of the April monthly contraction in CPI-W inflation, though, real average weekly earnings rose by 0.3%, following a revised 0.3% gain in March.

Unadjusted and year-to-year, April 2013 real earnings rose by 0.8%, versus a revised 0.8% gain in March. Both the monthly and annual fluctuations in this series are irregular, but current reporting remains well within the normal bounds of volatility.

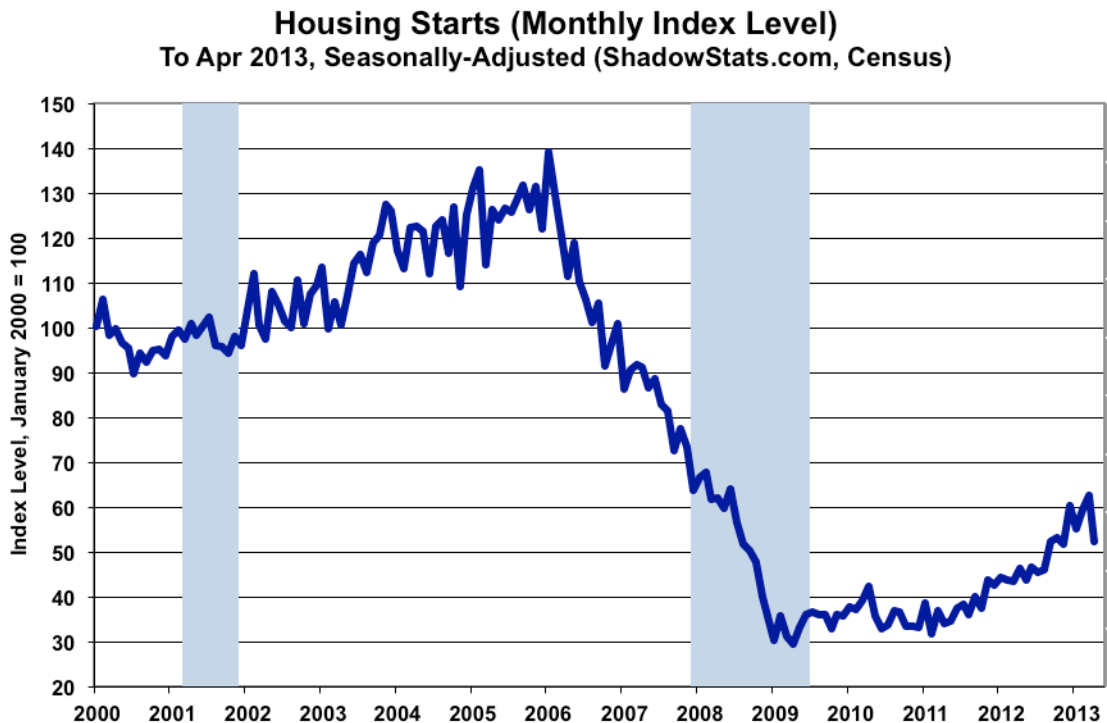
The graph of real average weekly earnings is located in the *CPI* portion of the *Reporting Detail* section. It shows that official real earnings, today, still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been flat for the last decade. Deflated by the ShadowStats 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.

***Residential Investment/Housing Starts—April 2013.*** A significant monthly decline in aggregate April 2013 housing starts number was dominated by a significant monthly plunge in structures with five units or more, otherwise reflecting apartment activity. Where building permits in that five-unit-plus category surged in April, some bounce-back in apartment activity is likely in the months ahead. Nonetheless, the weakness in April housing starts reporting also likely reflected some catch-up from overstated activity in earlier periods. With aggregate housing starts averaging an annualized pace of 963 million units in first-

quarter 2013, and with April 2013 at an annualized pace of 853 million units, second-quarter activity is at risk of reflecting an outright quarterly contraction, versus first-quarter 2013, unless there is surging growth in the next two months.

In the context of minimal annual revisions of the monthly seasonal-adjustments to the housing starts series, the just-reported headline 16.5% drop in April 2013 activity indeed was statistically-significant. It followed an insignificant 5.4% revised monthly gain in March. Where March housing starts were at a post-crash high—still far from a recovery like the GDP reporting—the April level of activity fell back and was the weakest month since November 2012.

As shown in the first graph following, although April activity remained well above the record monthly low seen for the present series in April 2009, the April 2013 headline number still was 62% below the January 2006 series high. Separately, April's 13.1% year-to-year growth in seasonally-adjusted housing starts was not a statistically-significant increase. That followed a revised 43.2% March annual gain, which was significant.



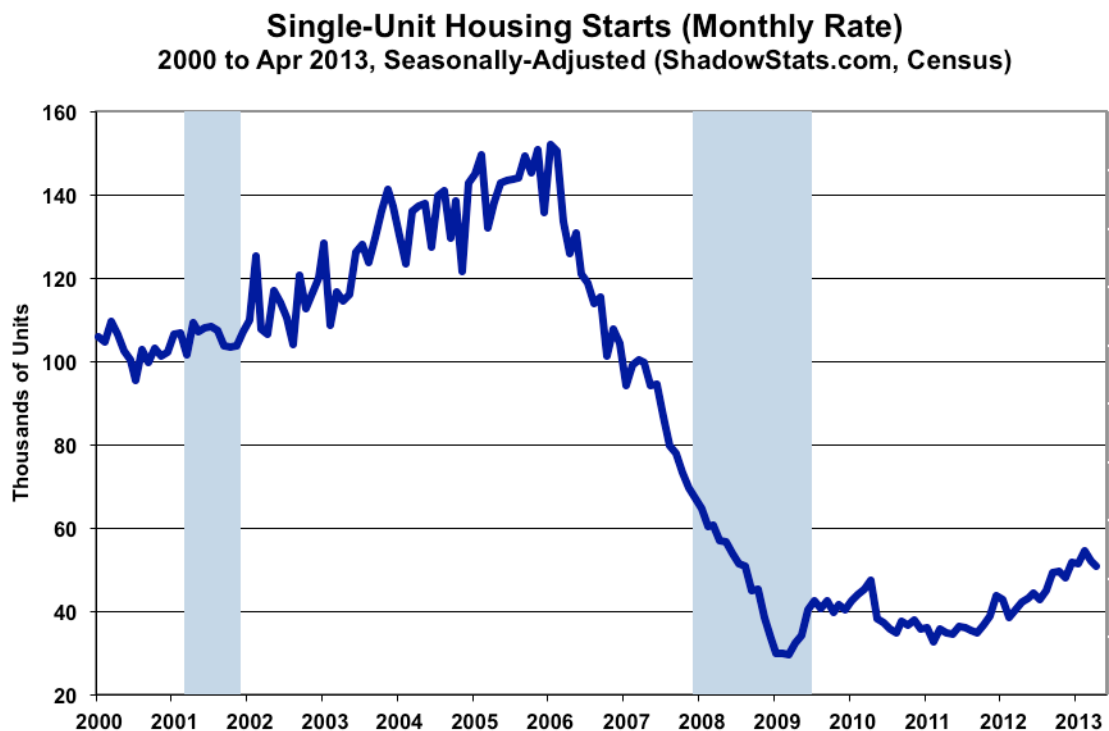
This highly volatile and irregular housing starts series tends to show mixed patterns, partially because it is reported as a mix of residential construction products, with one-unit housing starts that generally are for individual consumption resulting in new home sales, versus multi-unit starts that generally reflect the building of rental and apartment units. The aggregate April decline was composed of a statistically-insignificant 2.1% contraction in one-unit housing starts, combined with a statistically-significant 38.9% monthly collapse in starts of multiple-unit structures.

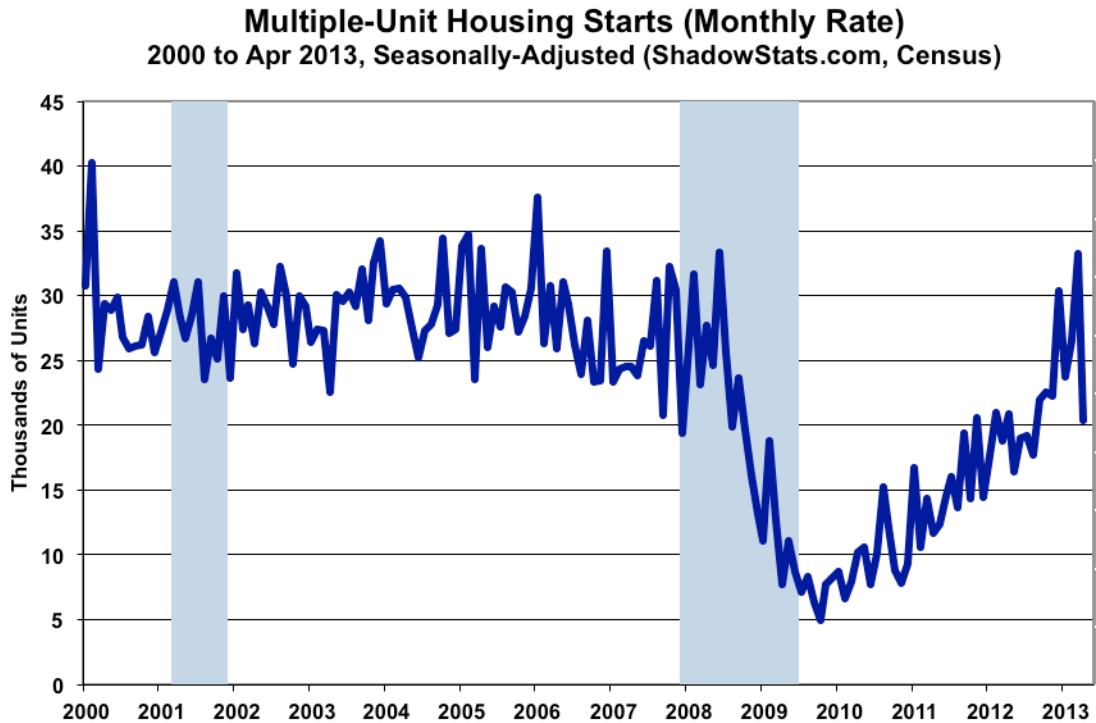


The following two graphs break-up the component reporting between one-unit and multiple-unit housing starts. The Census Bureau breaks its headline data into three categories beyond “total.” Those structure definitions are “1 unit,” “2 to 4 units,” and “5 units or more.” Due to lack of “meeting reliability standards,” Census does not publish the actual numbers for the “2 to 4 units,” although the numbers could be imputed. Accordingly, ShadowStats breaks the data into two sub-categories: “single-unit” and “multiple-unit” starts, where the multiple-unit category simply is the total unit count, minus the single-unit count.

While the Census Bureau reports the seasonally-adjusted data in terms of an annualized rate, the series here are so volatile month-to-month, that using a monthly level of activity is more realistic. Whether graphed at a monthly or annualized rate, though, the graphs show the exact same form.

The first and second graphs following show the respective single- and multiple-unit categories individually. Activity in single-unit starts generally has remained stagnant in the post-housing-crash environment. Multiple-unit starts activity has remained highly unstable and irregular, though trending higher. With the private-housing market difficulties, former homeowners or those not entering the home-owning market have pushed up demand for rental units. In the context of extreme volatility, multiple-unit starts had moved up to pre-crash levels, as of March’s reporting. Multiple-unit starts in April 2013, however, fell back to the weakest level seen since August 2012.





*[Further details on April CPI, related deflated series,  
and housing starts are found in the Reporting Detail section.]*

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## 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](#)).

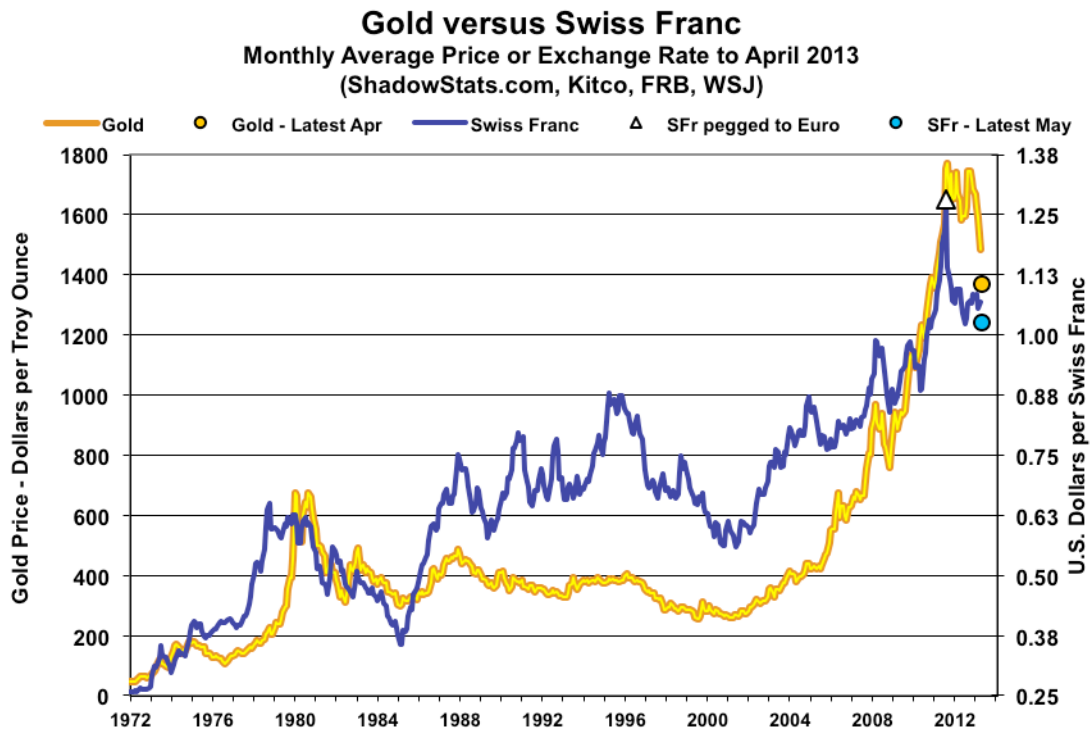
Efforts at delaying meaningful fiscal action, and at briefly postponing conflict over the Treasury's debt ceiling, have bought the politicians in Washington minimal time in the global financial markets, but the time has run out and patience in the global markets is near exhaustion. The continuing unwillingness 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](#).

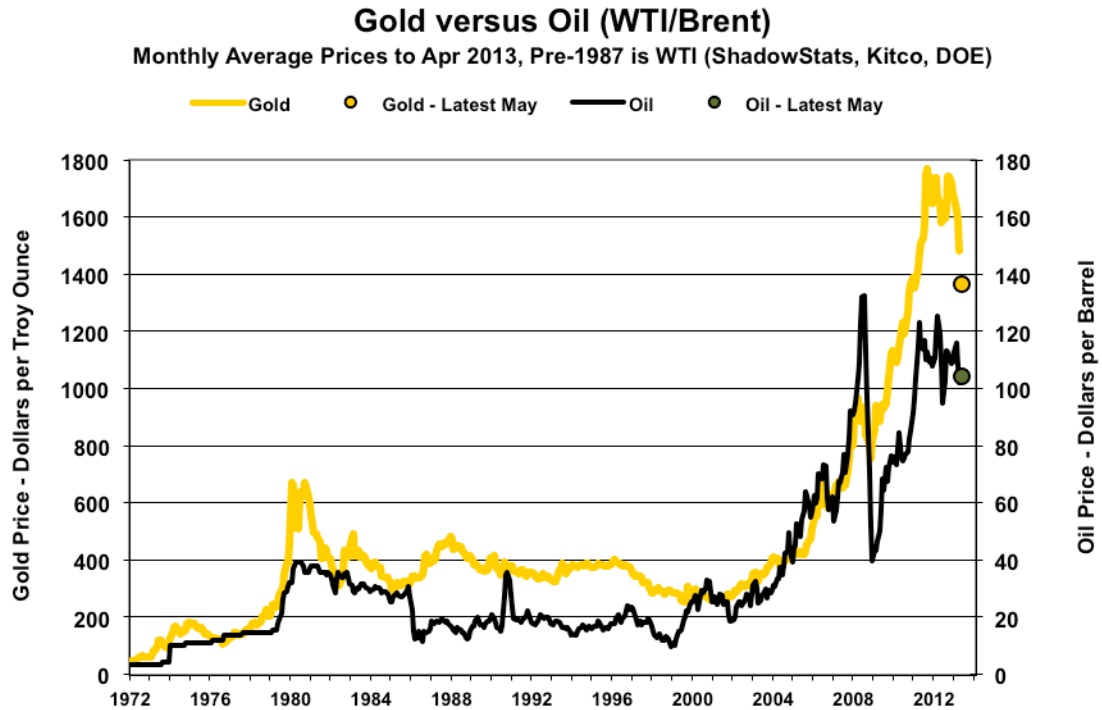
The unfolding fiscal catastrophe, in combination with the Fed's direct monetization of Treasury debt, eventually (more likely sooner rather than later) will savage the U.S. dollar's exchange rate, boosting oil and gasoline prices, and boosting money supply growth and domestic U.S. inflation. Relative 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.

**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. What still should prove to be relatively short-lived U.S. dollar strength, a short-lived crash in precious metals prices and a temporary pull-back oil prices is reflected in these graphs. Related issues are discussed in today's *Opening Comments* and in the *Opening Comments* of [Commentary No. 523](#). A *Special Commentary* with analysis of the budget deficit, the Federal Reserve's monetary policies, domestic political stability and implications for inflation, the U.S. dollar and precious metals, is planned for next week, tentatively on May 22nd. The "latest May" points in the following graphs are mid-morning (New York) market prices as of May 17th.





## REPORTING DETAIL

### CONSUMER PRICE INDEX—CPI (April 2013)

#### **Headline Consumer Inflation Again Was Depressed by Gasoline-Price Seasonal Adjustments.**

Headline consumer inflation contracted for a second month in April, and annual inflation slowed. The irregular volatility with inflation reporting involves increasingly unstable seasonal-adjustment factors in the monthly numbers, with gyrating oil and gasoline prices contributing wide swings to related energy prices and to broad inflation measures on an annual basis. The negative energy-related seasonal adjustments in the monthly CPI will continue in May, but they will swing to the positive side in June.

Energy prices remain high and likely are headed much higher in the months ahead, in response to what should become heavy foreign-exchange selling pressures against the U.S. dollar.

While the softening year-to-year inflation numbers are prepared consistently and are not seasonally adjusted, there are other issues in terms of methodological changes—made to the series in recent decades—that were designed to understate the government’s reporting of consumer inflation, as discussed in the [Public Comment on Inflation Measurement](#).

Separately, despite publicly planted hints and outright jawboning to the contrary, the Federal Reserve should continue its direct purchasing and monetization of U.S. Treasury securities. Renewed political turmoil also remains likely in upcoming budget and debt-ceiling negotiations, with the potential for political uncertainty also evolving from unfolding scandals in Washington. In the developing trend of movement away from the global reserve-currency status of the U.S. dollar, global financial transactions increasingly are bypassing the U.S. currency. In combination with a weakening economy and ongoing budget deficit issues, these factors should generate significant downside pressure on the value of the U.S. currency in the next several months, irrespective of other near-term market turbulence, intervention and supportive, official jawboning. Heavy selling of the U.S. dollar against the major Western currencies would tend to boost domestic consumer inflation, with quick spikes in the prices of oil and gasoline.

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### ***Notes on Different Measures of the Consumer Price Index***

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

*The **CPI-U (Consumer Price Index for All Urban Consumers)** is the monthly headline inflation number (seasonally adjusted) and is the broadest in its coverage, representing the buying patterns of all urban*

consumers. Its standard measure is not seasonally adjusted, and it never is revised on that basis except for outright errors.

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

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

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**CPI-U.** The Bureau of Labor Statistics (BLS) reported on May 16th that the headline, seasonally-adjusted CPI-U for April 2013 fell by 0.37% for the month (down by 0.10% unadjusted) versus a seasonally-adjusted 0.18% monthly decline in March (up by 0.26% unadjusted). As can happen at this time of year, seasonal adjustments again suppressed energy-related inflation.

Per the BLS, a 3.7% decline (consistent with Department of Energy reporting) in not-seasonally-adjusted monthly gasoline prices was turned sharply more negative—to an 8.1% monthly decline—by the increasingly irregular and volatile seasonal-adjustment factors.

In terms of aggregate energy inflation in April 2013, the sector showed an adjusted 4.3% (unadjusted 1.9%) monthly contraction in April. In the other CPI sectors, there was a 0.2% monthly increase in food inflation, both before and after seasonal adjustments, and a 0.1% increase in “core” inflation (net of food and energy prices), also both before and after adjustment.

Not seasonally adjusted, April 2013 year-to-year inflation for the CPI-U was 1.06%, down from 1.47% in March.

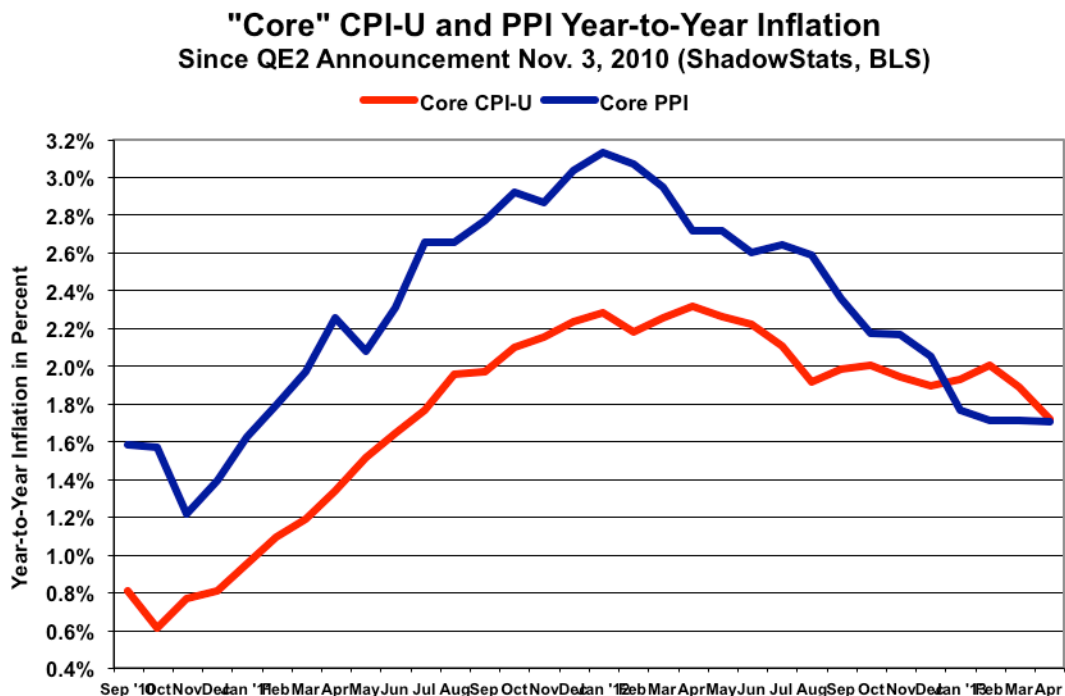
Year-to-year, CPI-U inflation would increase or decrease in next month’s May 2013 reporting, dependent on the seasonally-adjusted monthly change, versus a reported 0.13% decline in monthly inflation for May 2012. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for May 2013, the difference in May’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the April 2013 annual inflation rate of 1.06%.



**Core CPI-U.** Seasonally-adjusted April 2013 “core” CPI-U inflation (net of food and energy inflation) rose by 0.05% (0.08% unadjusted) month-to-month, versus an adjusted 0.11% (0.27% unadjusted) gain in March.

Twenty-one of the last twenty-nine 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 easing to 1.72% in April, versus 1.89% in March. The CPI core annual inflation number was in line with the core-PPI growth, which held at 1.71% in April for the third month.

The April 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 has created sporadic upside pressures here in recent months. Nonetheless, the core annual inflation numbers in April 2013 for both the CPI-U and PPI reflected the ongoing impact of higher energy prices in the broad economy, as shown in the accompanying graph.



**CPI-W.** The April 2013 headline, seasonally-adjusted CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, declined by 0.49% for the month (down by 0.16% unadjusted), versus a seasonally-adjusted monthly decline in March of 0.25% (up by 0.28% unadjusted).

Unadjusted, April 2013 year-to-year CPI-W inflation was 0.85%, down from 1.33% in March.



**Chained-CPI-U.** The initial reporting of year-to-year inflation for the April 2013 C-CPI-U was 1.09%, down from 1.41%, in March. Contrary to the usual potential-deficit-saving hype for the lower-inflation C-CPI, the April C-CPI showed higher annual inflation than either the CPI-U or the CPI-W.

The Chained-CPI-U is the fully substitution-based series that is included in the President's fiscal-2014 budget as a new cost-of-living adjustment factor. Congress also as been pushing the C-CPI as a way to reduce cost-of-living payments for Social Security, etc., by stealth. 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 and Chained-CPI](#)).

The BLS indicates that the C-CPI-U, "is designed to be a closer approximation to a cost-of-living index than other CPI measures. [That is, a fully-substitution as opposed to a fixed-weight basis cost of living measure, where the fixed-weight measures reflect (and substitution-based measures do not reflect) the cost of maintaining a constant standard of living. Again, see the above-linked *Public Commentary*.]

"That said, BLS publishes thousands of indexes each month; these indexes can vary by which items, geographic areas, and populations are covered. As different users have different needs, BLS cannot say which index is necessarily better than another. As such, BLS takes no position on what the Congress or the Administration should use to make adjustments to Social Security or any other federal program.

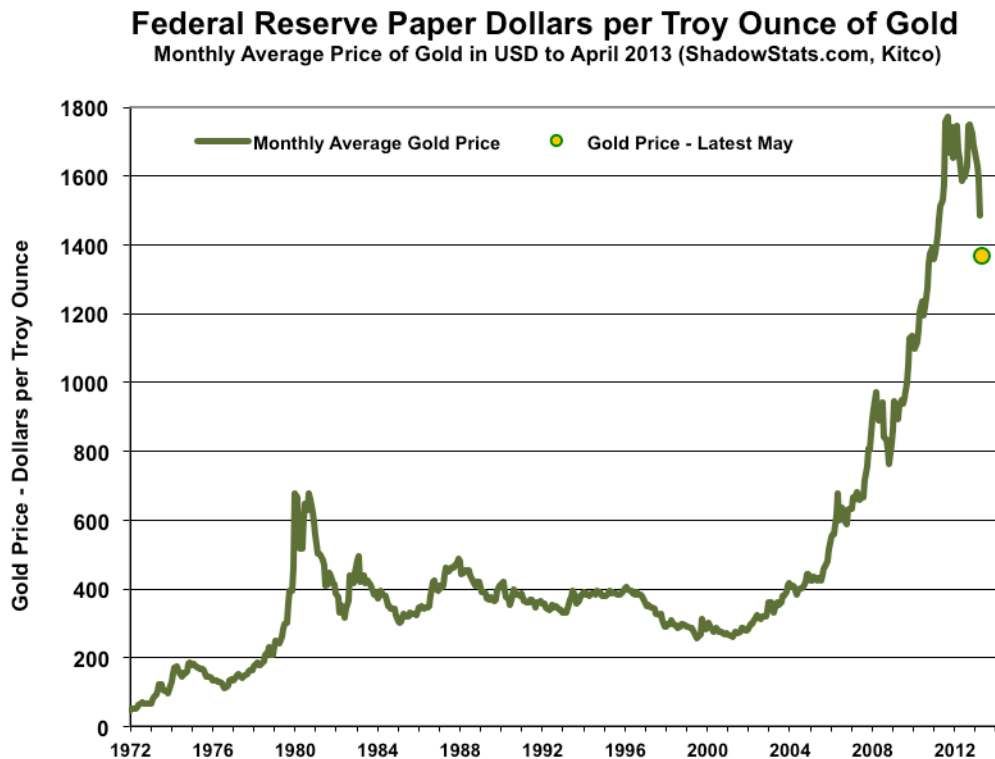
"The C-CPI-U to our knowledge currently is not used in any federal legislation as an adjustment mechanism."

The BLS has posted new C-CPI material on its site, apparently beginning to anticipate the pending new political uses for the measure: [Chained CPI](#).

**Alternate Consumer Inflation Measures.** Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-based)—annual CPI inflation was roughly 4.5% in April 2013, versus 4.9% in March.

The ShadowStats-Alternate Consumer Inflation Measure (1980-Based), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, fell to about 8.7% (8.70% for those using the extra digit) in April 2013, versus an annual inflation rate of 9.1% in March.

*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 [Public Commentary on Inflation Measurement and Chained-CPI](#) for further details.)*



**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 \$2,541 per troy ounce, based on April 2013 CPI-U-adjusted dollars, and \$10,022 per troy ounce, based on April 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 April 2013 CPI-U inflation, the 1980 silver-price peak would be \$148 per troy ounce and would be \$583 per troy ounce in terms of April 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). See the *Opening Comments* for a discussion on the current turmoil in the precious metals markets, and for the plot of monthly average gold prices regularly found in this section.

***Real (Inflation-Adjusted) Retail Sales.*** The gain in April 2013 real (inflation-adjusted) retail sales was greater than the headline nominal (not-adjusted-for inflation) growth, due to the 0.37% headline contraction in the April CPI-U. The headline monthly nominal sales gain of 0.09% for April, accordingly, reflected a real gain of 0.46% (0.09% sales increase, minus a negative [or plus] headline 0.37% CPI-U) for the month, following a revised 0.27% (previously 0.25%) monthly real decline in March. See [Commentary No. 523](#) for nominal reporting detail on April retail sales.

Year-to-year, April 2013 real retail sales rose at an annual pace of 2.52%, versus an upwardly revised 1.47% (previously 1.33%) in March. In normal economic times, the recent levels in annual real growth would be signaling a pending recession. In the current circumstance, this signal likely will serve as an indicator of a renewed downturn in broad economic activity.

***Hitting Pre-Recession Levels.*** The first of the two following graphs 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 April 2013 reporting, the headline real retail sales series just has moved above pre-recession levels, the only major economic series to do so, other than the GDP, which did that more than a six quarters ago and has kept rising, well beyond the reported activity of any other series, including real retail sales. There is no major economic series showing the GDP's pattern of official, full recovery and extended new growth.

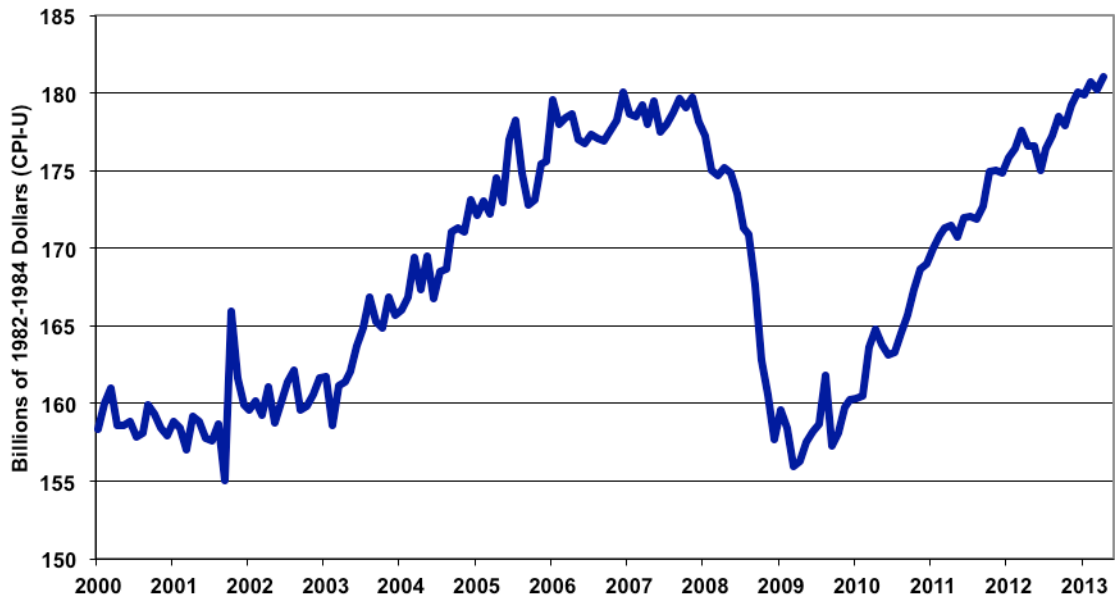
The apparent “recovery” in the real retail sales series (as well as in the GDP) is due to the understatement of the rate of inflation used in deflating retail sales and other series. As discussed more fully in [Hyperinflation 2012](#) and [Special Commentary \(No. 485\)](#), deflation by too-low an inflation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

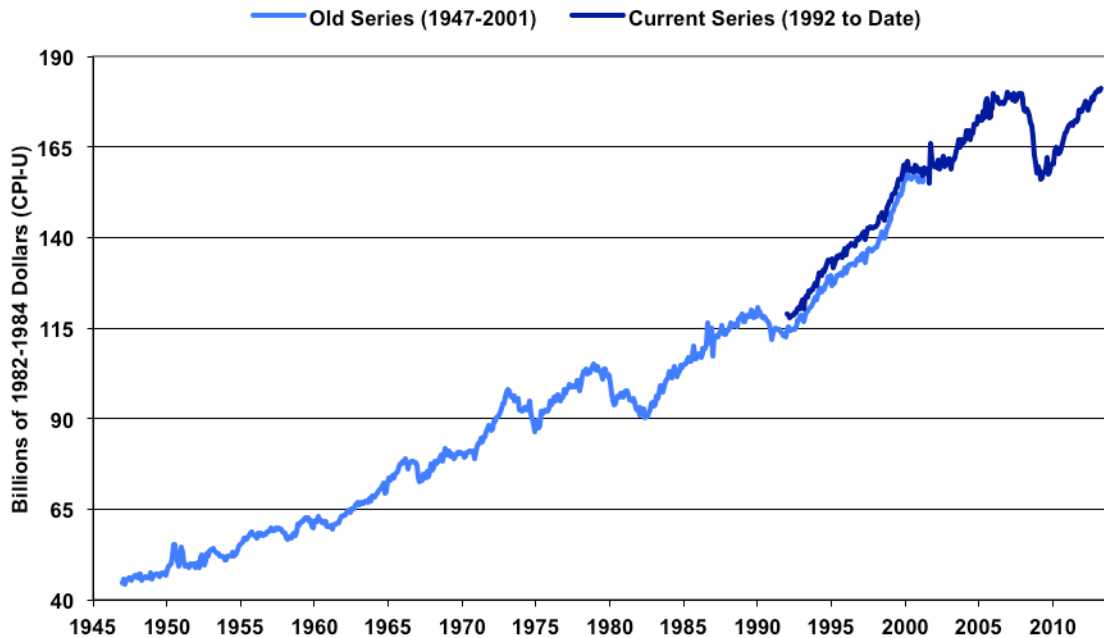
There has been no change in the underlying consumer-liquidity fundamentals. There is nothing that would support a sustainable turnaround in retail sales, personal consumption, housing or general economic activity. There never was a broad economic recovery, and there is no recovery underway, just general bottom-bouncing that is turning down anew.

As official consumer inflation resumes its upturn in the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—as reflected partially by recent real earnings difficulties, discussed in the next section—these data should trend meaningfully lower, in what eventually will gain recognition as a formal, double-dip recession.

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

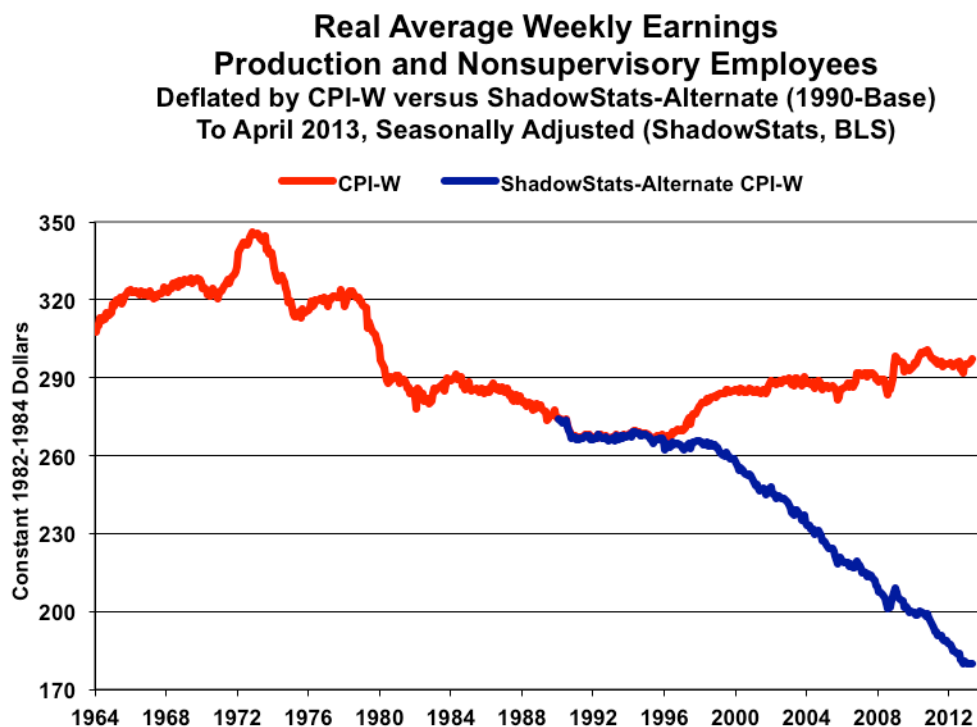


**Real Retail Sales (Deflated by CPI-U)**  
To Apr 2013, Seasonally-Adjusted (ShadowStats.com, Census)



**Real (Inflation-Adjusted) Earnings.** Coincident with the CPI release for April 2013, the BLS published real (inflation-adjusted) average weekly earnings for April 2013. Before inflation adjustment, the production and nonsupervisory employees series showed a seasonally-adjusted 0.2% monthly contraction for April 2013 average weekly earnings, versus a 0.1% monthly gain in March. Net of the monthly contraction in CPI-W inflation, though, real average weekly earnings rose by 0.3%, following a revised 0.3% (previously 0.2%) gain in March.

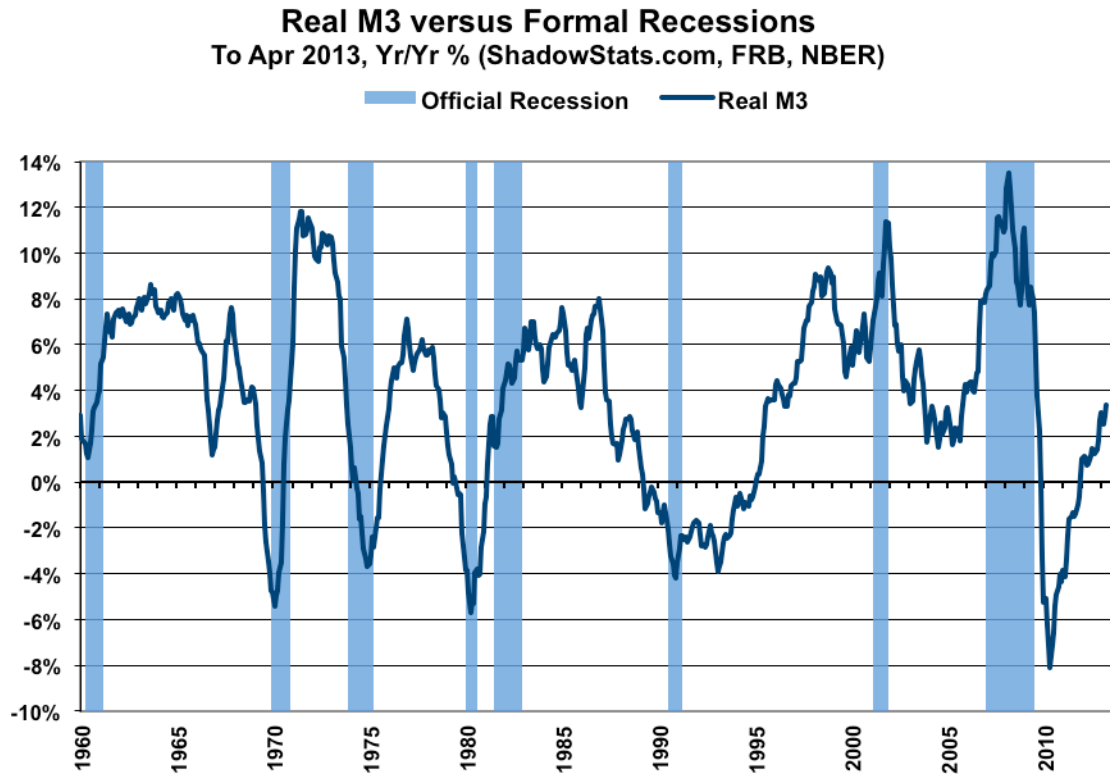
Unadjusted and year-to-year, April 2013 real earnings gained by 0.8%, versus a revised 0.8% (previously 0.7%) gain in March. Both the monthly and annual fluctuations in this series are irregular, and current reporting remains well within the normal bounds of volatility.



The accompanying graph of the real average earnings, shows the earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-based (blue-line). As the inflation-depressing methodologies of the 1990s began to kick-in, the artificially weakened CPI-W (also used in calculating 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 accompanying graph—based on April 2013 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for April 2013 rose to 3.4%, from a revised 2.9% (previously 2.8%) gain in March. The gain reflected both a small gain in M3 annual growth and a sharp slowing in year-to-year CPI-U inflation.



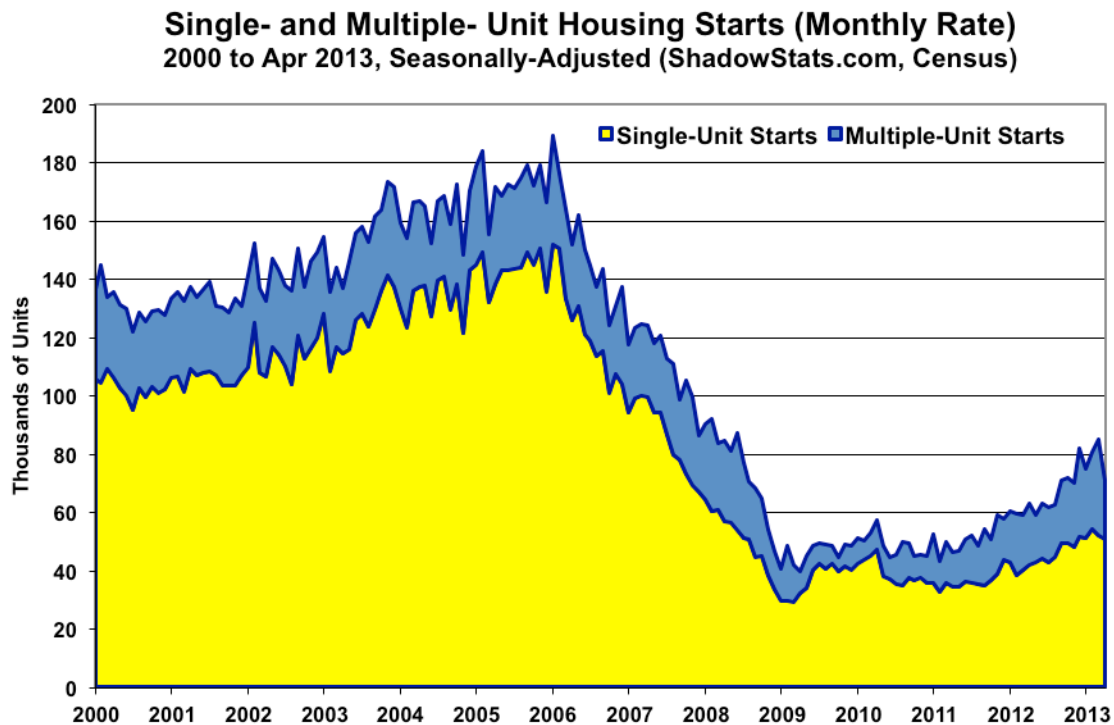
The signal for a downturn or an intensified downturn is generated when annual growth in real M3 first turns negative in a given cycle; the signal is not dependent on the depth of the downturn or its duration. Breaking into positive territory does not generate a meaningful signal one way or the other 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 into 2011 and 2012, 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 unofficially in 2006.

## RESIDENTIAL CONSTRUCTION (April 2013)

**April Housing Starts in Meaningful Plunge.** The statistically-significant 16.5% drop in April housing starts was composed of a statistically-insignificant 2.1% contraction in one-unit housing starts, combined with a statistically-significant 38.9% monthly collapse in starts of multiple-unit structures (a 37.8% monthly plunge in structures with five units or more). This reporting was in the context of the annual revisions to the seasonally-adjusted housing starts series, which were minimal.



This highly volatile and irregular housing starts series tends to show varying patterns, partially because it is reported as a mix of residential construction products, with one-unit housing starts that generally are for individual consumption resulting in new home sales, versus multi-unit starts that generally reflect the building of rental and apartment units. As shown partially in the following graph and as graphed in the *Opening Comments* section, activity in single-unit starts generally has remained relatively stagnant in the post-housing-crash environment, while the multiple-unit starts activity has remained highly unstable and irregular, but generally moving up to pre-crash levels, at least through last month's reporting. With the



private-housing market difficulties, former homeowners or those not entering the home-owning market have pushed demand higher for rental units. Unfortunately, though, liquidity-impaired consumers can have difficulties with renting as well as with owning their residences.

***April 2013 Housing Starts Reporting.*** The Census Bureau reported on May 16th, a statistically-significant, month-to-month headline decline in seasonally-adjusted April 2013 housing starts of 16.5% (a decline of 17.7% before period-period and seasonal-adjustment revisions) +/- 9.1% (all confidence intervals are at the 95% level). March housing starts activity revised to a 5.4% (previously 7.0%) monthly gain.

Where aggregate monthly housing starts activity level was at a post-housing-crash high in March 2013, the April level was the weakest since November 2012. Still well above the record monthly low seen for the present series in April 2009, the April headline number is still 62% below the 2006 series high.

Year-to-year growth in seasonally-adjusted, aggregate April 2013 housing starts was a statistically-insignificant increase of 13.1%, following a revised 43.2% (previously 46.7%) annual gain in March.

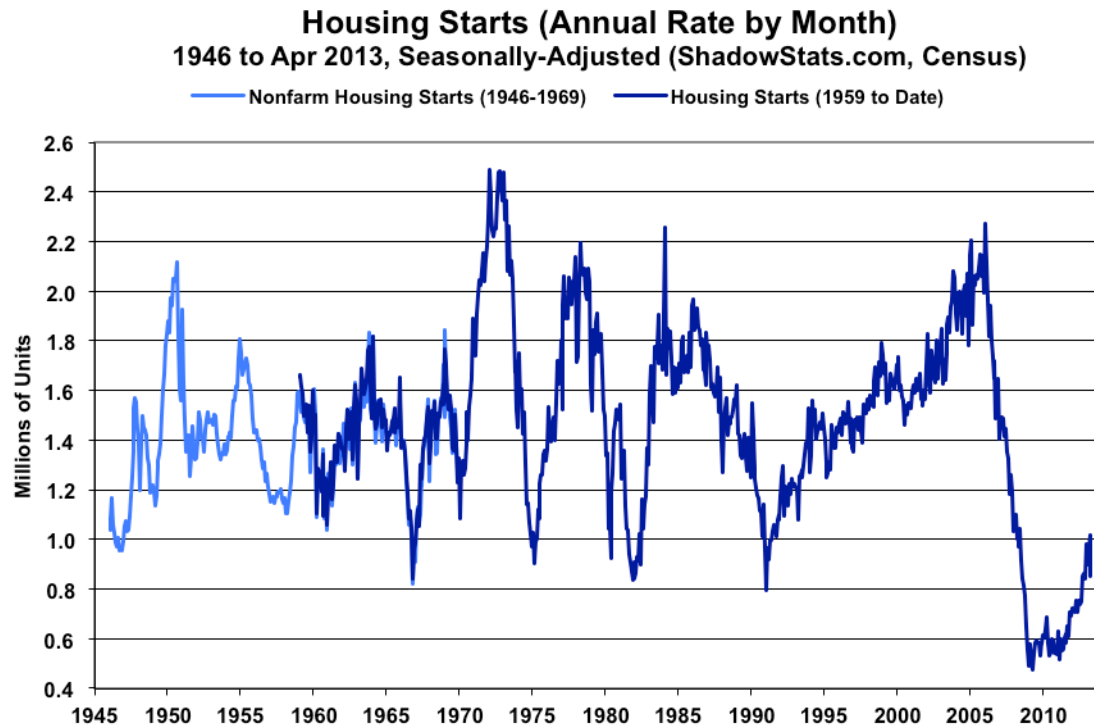
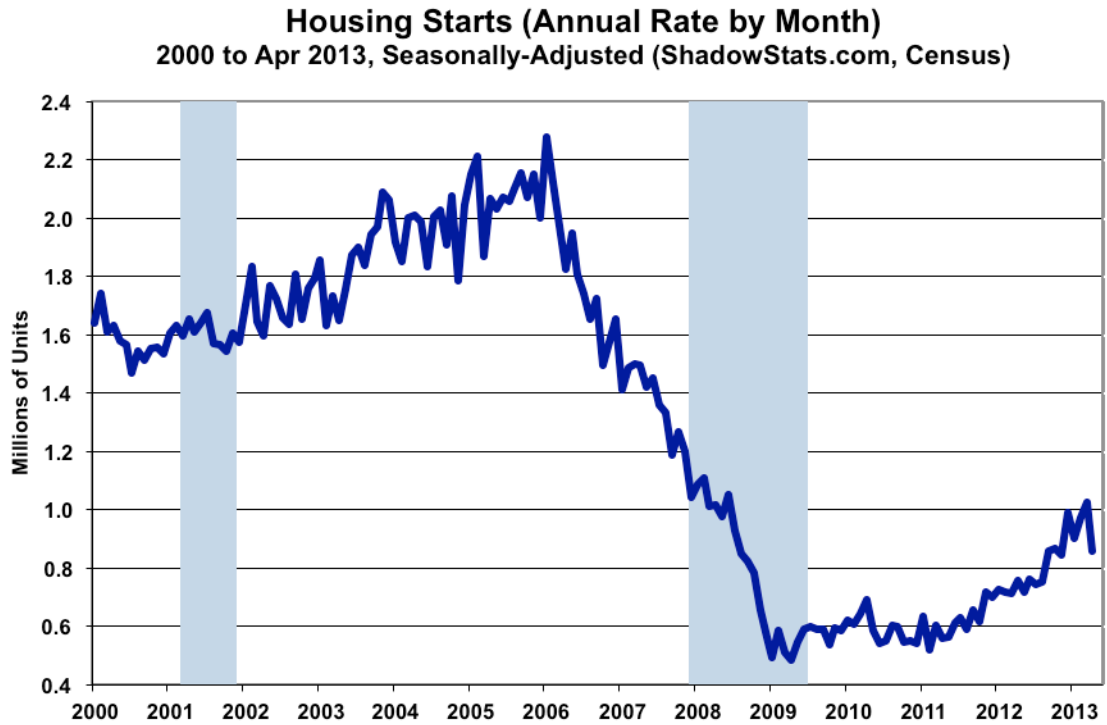
By Unit Category. Housing starts for single-unit structures in April fell by a statistically-insignificant 2.1% +/- 9.1% for the month, following a revised 4.4% (previously 4.8%) contraction in March.

Reporting of activity in starts for apartment buildings (5 units or more) remained highly unstable, but the monthly decline was meaningful. Month-to-month, April's apartment building starts fell by a statistically-significant 37.8% +/- 17.8%, versus a revised 22.5% (previously a 26.9%) gain in March. Surging building-permit activity in this sector during April 2013 suggested some rebounding activity in the months ahead.

Graphs of Aggregate Housing Starts Activity. The official reporting of housing starts is expressed at an annualized monthly pace of starts, which was 853,000 in April 2013, the only number so far in second-quarter 2013. With aggregate housing starts averaging an annualized pace of 963 million units in first-quarter 2013, second-quarter activity is at risk of reflecting an outright quarterly contraction, versus the first-quarter.

Due to the regular, extreme volatility in this monthly series, however, it is more meaningful to look at the actual, non-annualized monthly number. The graphed patterns are the same; it is just that the monthly levels tend to be a little more realistic.

The preceding graph in this section, and those in the *Opening Comments* section, reflect the seasonally adjusted monthly rates, not the annualized numbers. Following are the two regular graphs for this series, in official, annualized millions of units per month.



## WEEK AHEAD

**Weaker Economic and Inflation Data Likely in the Month Ahead.** Constrained by a by sharply-negative seasonal adjustments to energy prices, May 2013 consumer inflation numbers also should show muted seasonally-adjusted monthly price increases. That said, with the highly irregular oil and gasoline price movements appearing, once again, to have bottomed out. The distortions from increasingly irrelevant, shifting and severely-negative gasoline and oil price seasonal adjustments should flip to positive-side distortions with June and July's adjusted CPI reporting, to neutral in May and then to positive in June for the PPI. Going forward, reflecting the still-likely negative impact on the U.S. dollar in the currency markets from the continuing QE3 and the still-festering fiscal crisis/debt-ceiling negotiations, reporting in the ensuing months and year generally should reflect much higher-than-expected inflation.

Where expectations for economic data in the months and year ahead should tend to soften, 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 new orders for durable goods, and as pending for 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 have been 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*.

***Existing- and New-Home Sales (April 2013).*** April existing-home sales are due for release on Wednesday, May 22nd, from the National Association of Realtors, with the April new-home sales report from the Census Bureau due on Thursday, May 23rd. 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. These series should show some ongoing relationship to the trend in single-unit housing starts (see detail in the *Opening Comments* section).

***New Orders for Durable Goods (April 2013).*** The reporting of April 2013 new orders for durable goods is scheduled for Friday, May 24th, by the Census Bureau. The April reporting will be the first since, and in the context of the downside, annual benchmark revisions just released (May 17th). Despite what has been the continuing sharp and irregular volatility in commercial aircraft orders, new orders generally have been stagnant-to-trending lower. That trend likely will continue with the revised data, albeit at a likely lower level (as revised). A general continuation and intensification of downside movement in orders during the next several months remains likely.

In terms of the inflation contribution to the monthly and annual change in new orders, the seasonally-adjusted, month-to-month increase in the April 2013 PPI finished goods capital equipment index was 0.1%, with year-to-year unadjusted (and adjusted) inflation at 0.9%. Due to hedonic-quality adjustments to this portion of the PPI series, however, as with the industrial production and GDP numbers, those inflation data understate inflation reality and, correspondingly, overstate inflation-adjusted growth, by perhaps three-percentage points per year.

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