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

COMMENTARY NUMBER 532
Market Instabilities, May Retail Sales, Consumer Liquidity

June 13, 2013

Market Instabilities Suggestive of Nearing, Hyperinflation End Game

Monthly Retail Sales Gain Was Statistically Insignificant; Recession Signal Intact

Consumer Liquidity Remains Heavily Impaired

PLEASE NOTE: The next regular Commentary *is scheduled for tomorrow, Friday, June 14th, covering the May producer price index (PPI) and industrial production.*

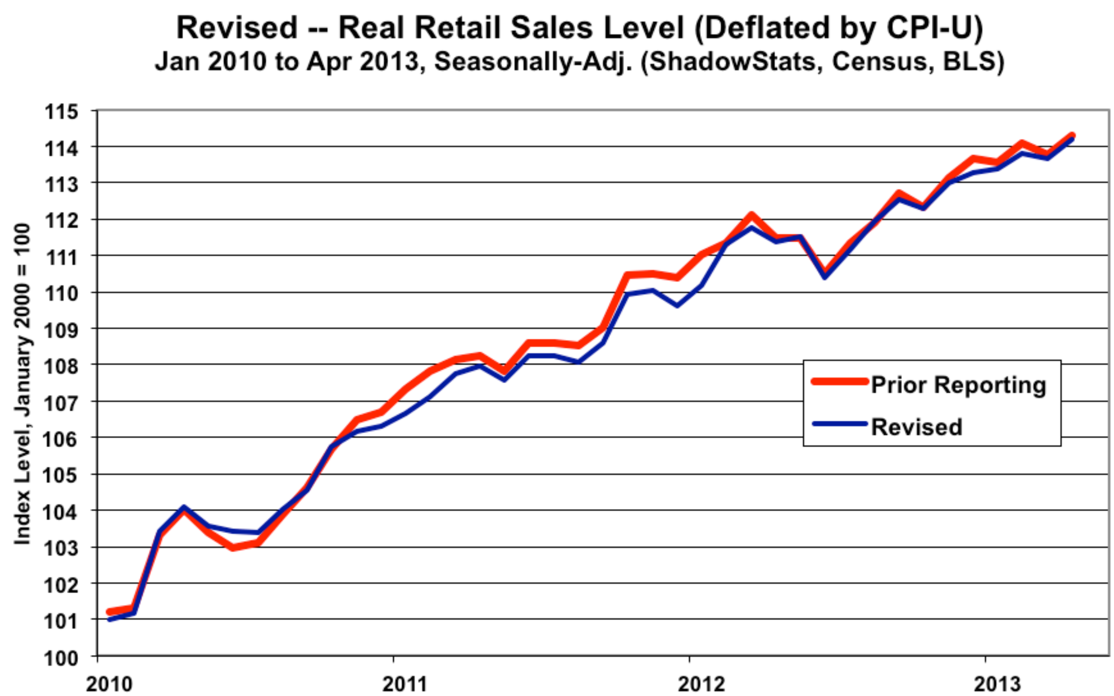
Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Global Financial Easiness Suggestive of Shifting Outlooks. As was touched upon in prior *Commentary No. 531*, published on Saturday, June 8th, unusual activity of the last several weeks seen in various financial markets could be suggestive of shifting global expectations towards increasing economic and systemic difficulties in the months ahead. Those issues also appear to be at work in volatile markets today (June 13th), particularly in selling pressure against the U.S. dollar. While speculation is mounting that the Fed is about to pull back on its quantitative easing QE3, central bank action—other than continued jawboning—remains unlikely. The harsh reality remains that the Fed appears to have locked itself into its current easing mode for the foreseeable future, given continuing systemic-solvency and economic crises. The *Hyperinflation Outlook* was updated in *Commentary No. 531*, and is repeated in this missive for anyone who missed the prior posting. Commentary on circumstances in the political and financial arenas will be updated as developments warrant.

On the economic front, today's headline 0.6% gain in nominal retail sales reporting was not statistically significant; it reflected a resumption of the reporting inconsistencies inherent in the concurrent-seasonal-adjustment process; and, in terms of annual growth, it appeared to continue its signal for an intensifying economic downturn. The outlook for broad U.S. economic activity remains dismal, particularly for consumer activity, which directly accounts for more than 70% of the GDP. Consumer liquidity remains in severe structural constraint.

The retail sales and consumer liquidity areas are covered in these *Opening Comments* (and *Reporting Detail* for retail sales). A more-comprehensive assessment of May data will follow in the June 18th *Commentary* covering the May CPI release, real retail sales, real earnings, production and housing.



May Retail Sales Gain Was Heavily Distorted and Not Statistically Significant. The statistically-insignificant, headline 0.6% (0.55% at the second decimal point) gain in May 2013 retail sales was before adjustment for inflation, and in the context of the May 31st benchmark revision to retail sales (see *Commentary No. 529*). The general downside revisions to previously-reported retail sales activity, as reflected in the preceding graph, were seen when better-quality data were available. As reporting history moved forward into the current, overly optimistic assumptions and modeling, the revisions tended to resume the previously-estimated reporting patterns.

With the May reporting came renewed seasonally-factor turmoil and instabilities resulting from the first post-benchmark recasting of monthly concurrent seasonal adjustments, discussed in the *Reporting Detail* section.

April 2013 headline reporting was an unrevised gain of 0.1% (a revised 0.15% at the second decimal point, previously 0.10% as benchmarked). Nominal year-to-year growth was 4.31% in May, versus a revised 3.66% (previously benchmarked at 3.65%) in April.

As covered in the *Week Ahead* section, May 2013 consumer inflation may show a slight month-to-month increase in the CPI-U (due for release on June 18th) Such would dampen the otherwise statistically-insignificant nominal sales gain in real (inflation-adjusted) terms.

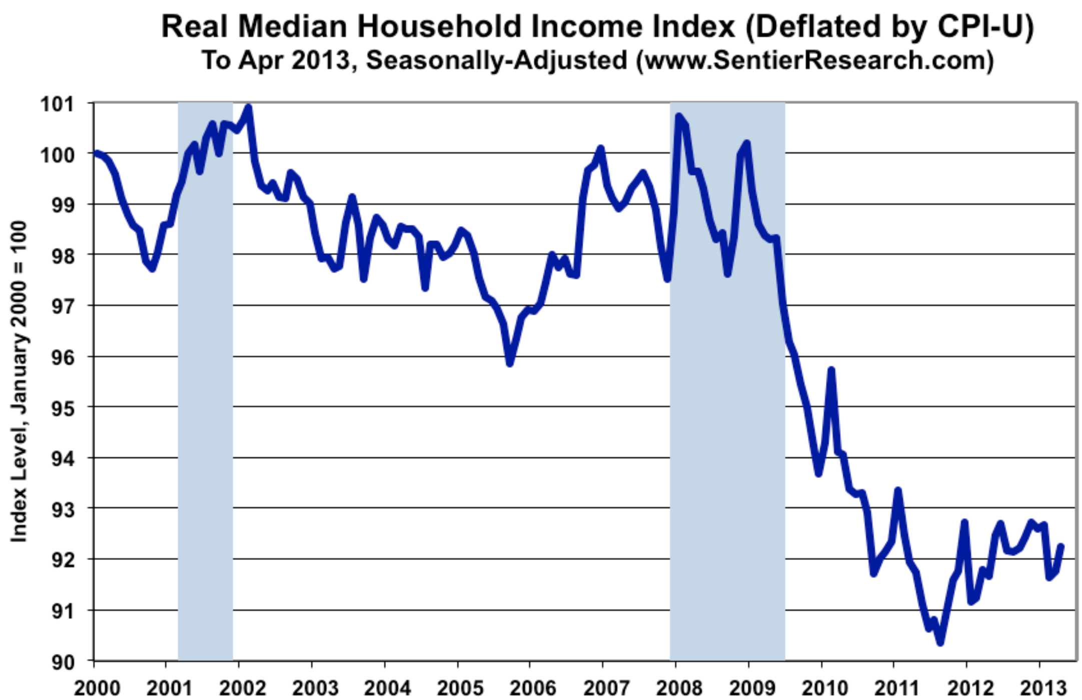
Consumer Liquidity Remains Structurally Impaired. Actual activity in consumer buying of goods and services remains constrained by the intense, structural-liquidity woes besetting the consumer, as suggested in the following series of graphs. Without real growth in income, and without the ability or willingness 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.

The first graph shows real median household income through April 2013, deflated by the CPI-U (www.SentierResearch.com). Income keeps bottom bouncing near its cycle low. The downturn in income accelerated during the purported post-June 2009 economic recovery. The second graph shows the annual Census Bureau estimates of the same series, deflated by the CPI-U. On that basis, the last-reported 2011 real median household income estimate is below readings seen in the late-1960s and early-1970s. The income issues are explored in greater detail in *No. 527: Special Commentary*, *No. 485: Special Commentary* and *Hyperinflation 2012*.

The income graphs are followed by plots of the latest measures of consumer confidence and consumer sentiment. As with the income graphs, neither confidence nor sentiment has recovered from the post-2007 decline in economic activity, and both measures remain at levels consistent with ongoing, deep recessions. Where these consumer indicators tend to mirror the tone of the popular press, they also are suggestive of the consumer being unwilling or unable to expand credit and broad spending.

The final graph shows the latest estimate of consumer credit outstanding from the Federal Reserve. As has been the case for the full post-2008 financial panic period, nearly all the growth seen in this series has been due to the expansion of federally-owned student loans.

Again, without the income, confidence or credit to expand consumption, the consumer remains in a structural bind that will inhibit any sustainable, near-term recovery in economic activity, and it could not have driven or supported the purported post-2009 economic recovery.


Real Median Household Income Index (Deflated by CPI-U)
To Apr 2013, Seasonally-Adjusted (www.SentierResearch.com)
Index Level, January 2000 = 100
101
100
99
98
97
96
95
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92
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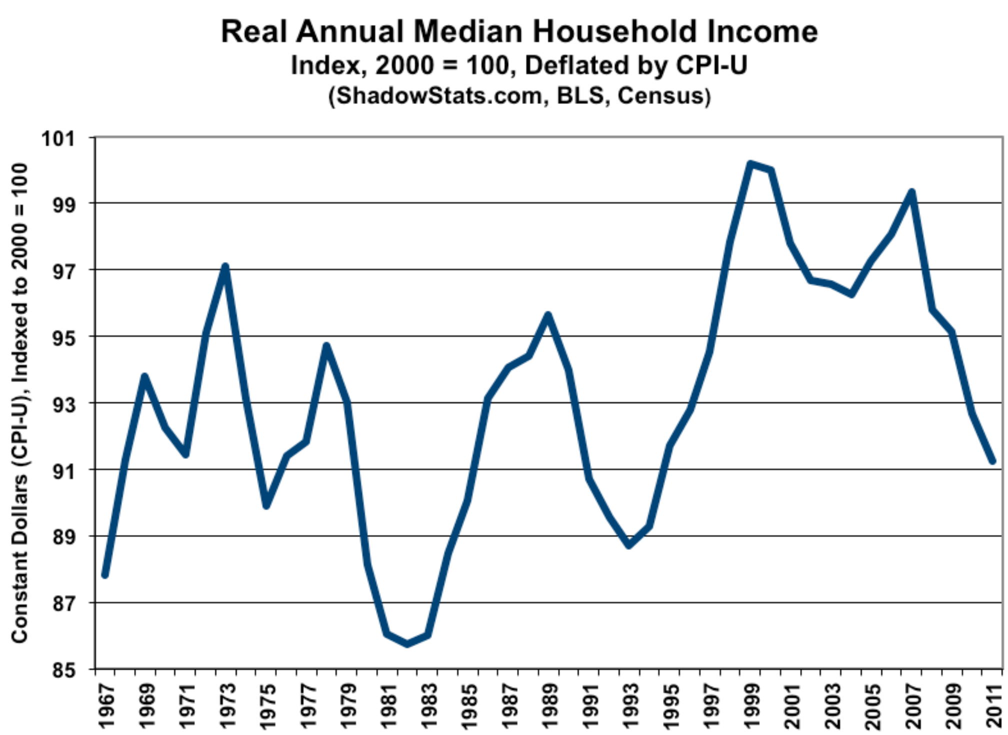
90
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013


Real Annual Median Household Income
Index, 2000 = 100, Deflated by CPI-U
(ShadowStats.com, BLS, Census)
Constant Dollars (CPI-U), Indexed to 2000 = 100
101
99
97
95
93
91
89
87
85
1967
1969
1971
1973
1975
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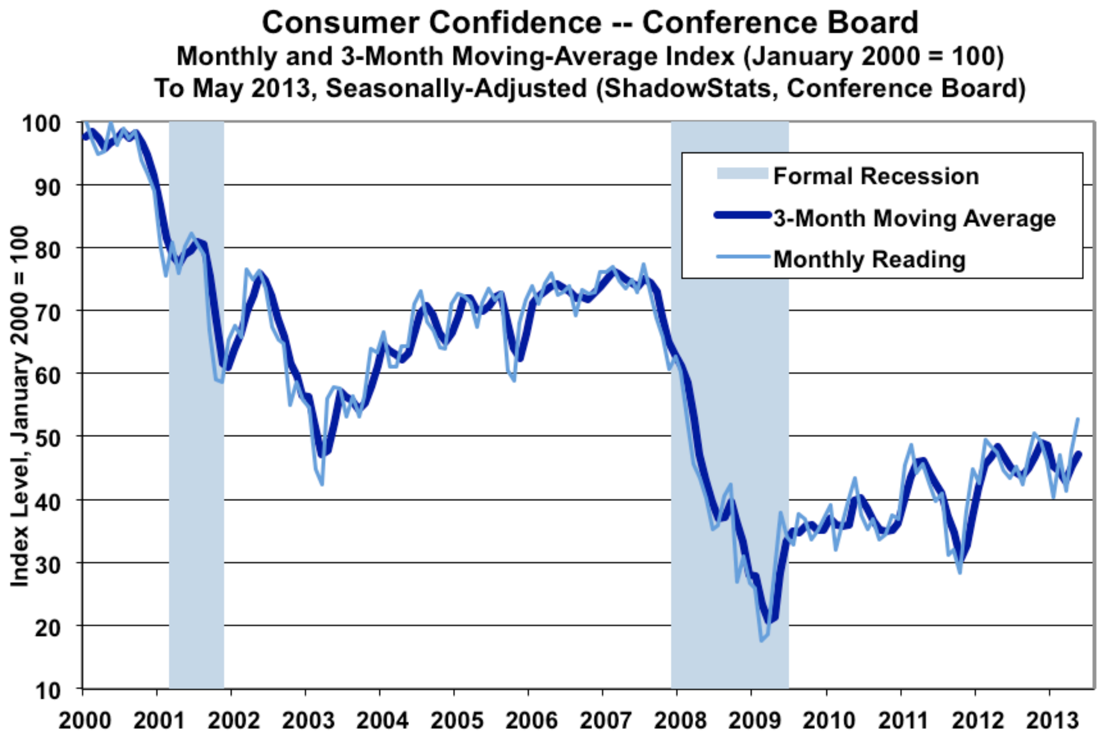
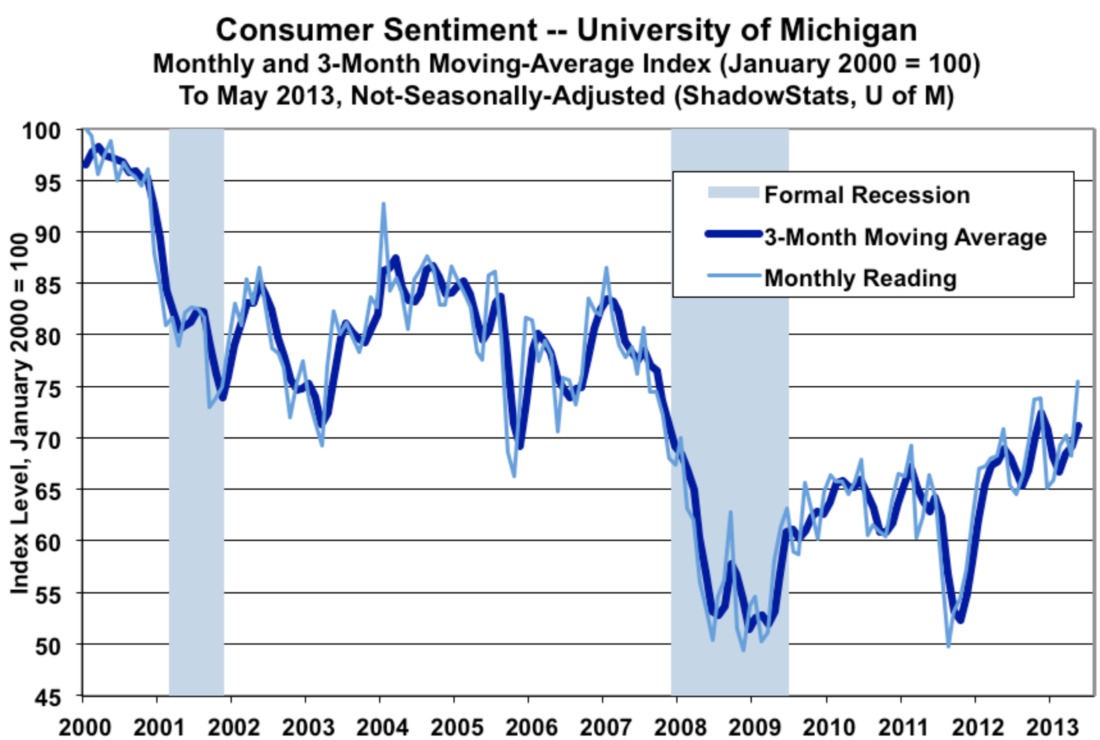
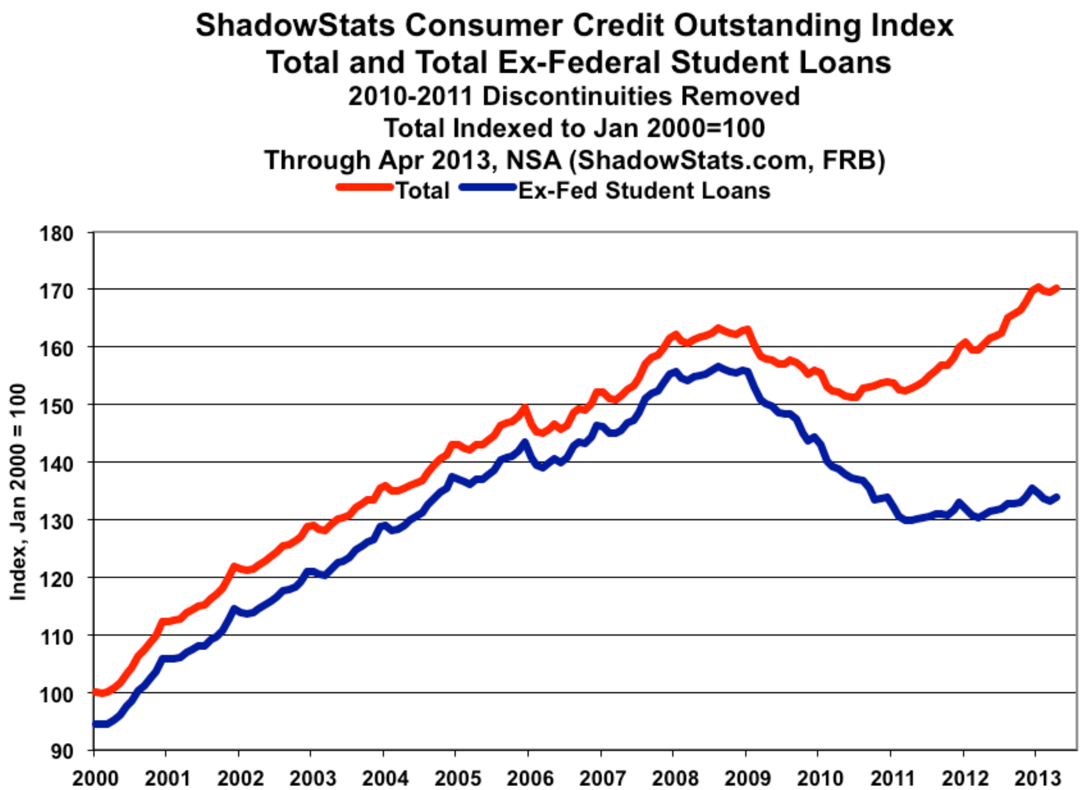
2009
2011


Consumer Confidence -- Conference Board
Monthly and 3-Month Moving-Average Index (January 2000 = 100)
To May 2013, Seasonally-Adjusted (ShadowStats, Conference Board)
Index Level, January 2000 = 100
100
90
80
70
60
50
40
30
20
10
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Formal Recession
3-Month Moving Average
Monthly Reading


Consumer Sentiment -- University of Michigan
Monthly and 3-Month Moving-Average Index (January 2000 = 100)
To May 2013, Not-Seasonally-Adjusted (ShadowStats, U of M)
Index Level, January 2000 = 100
100
95
90
85
80
75
70
65
60
55
50
45
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Formal Recession
3-Month Moving Average
Monthly Reading



[For further detail on the May retail sales, see the **Reporting Detail** ***section.]***

HYPERINFLATION WATCH

Hyperinflation Outlook—Expanded Summary. Subscribers are urged to read this synopsis, if they missed it in the prior *Commentary No. 531*, published on Saturday, June 8th. The current hyperinflation outlook was revised and updated with new detail on May 29th, in *No. 527: Special Commentary*, and the summary was revised and expanded to reflect the content of that *Special Commentary* and subsequent *Commentaries*. The following text, however, has not been changed since *No. 531*. It is intended as background material for new subscribers and for those looking for a brief summary of the broad outlook of the economic, systemic and inflation crises that face the United States in the year or so ahead.

Background Material. *No. 527: Special Commentary* (May 2013) supplemented *No. 485: Special Commentary* (November 2012), reviewing shifting market sentiment on a variety of issues affecting the U.S. dollar and prices of precious metals. *No. 485*, in turn, updated *Hyperinflation 2012* (January 2012)—the base document for the hyperinflation story—and the broad outlook for the economy and inflation, as well as for systemic-stability and the U.S. dollar. Of some use, here, also is the *Public Comment on Inflation*.

These are the primary articles outlining current conditions and the background to the hyperinflation forecast, and they are suggested reading for subscribers who have not seen them and/or for those who otherwise are trying to understand the basics of the hyperinflation outlook. The fundamentals have not changed in recent years, other than events keep moving towards the circumstance of a domestic U.S. hyperinflation by the end of 2014. Nonetheless, the next, fully-updated hyperinflation report is targeted for publication late this month (June 2013).

Beginning to Approach the End Game. Nothing is normal: not the economy, not the financial system, not the financial markets and not the political system. The financial system still remains in the throes and aftershocks of the 2008 panic and near-systemic collapse, and from the ongoing responses to same by the Federal Reserve and federal government. Further panic is possible and hyperinflation remains inevitable.

Typical of an approaching, major turning point in the domestic- and global-market perceptions, bouts of extreme volatility and instability have been seen with increasing frequency in the financial markets, including equities, currencies and the monetary precious metals (gold and silver). Consensus market expectations on the economy and Federal Reserve policy also have been in increasing flux, but the markets are stuck with underlying reality and, eventually, they will have to recognize same. The economy remains in continued and deepening trouble, and the Federal Reserve—despite currency-market platitudes to the contrary—is locked into quantitative easing by persistent problems now well beyond its control.

At the same time, rapidly deteriorating expectations for domestic political stability reflect widening government scandals, in addition to the dominant global-financial-market concern of there being no viable prospect of those controlling the U.S. government addressing the long-range sovereign-solvency issues of the United States government. All these factors, in combination, show the end game to be nearing.

The most visible and vulnerable financial element to suffer early in this crisis likely will be the U.S. dollar in the currency markets (all dollar references here are to the U.S. dollar, unless otherwise stated). Heavy dollar selling should evolve into massive dumping of the dollar and dollar-denominated paper assets. Dollar-based commodity prices, such as oil, should soar, accelerating the pace of domestic inflation. In turn, that circumstance likely will trigger some removal of the U.S. dollar from its present global-reserve-currency status, which would further exacerbate the currency and inflation problems tied to the dollar.

This still-forming great financial tempest has cleared the horizon; its impact on the United States and those living in a dollar-based world will dominate and overtake the continuing economic and systemic-solvency crises of the last eight years. The issues that never were resolved in the 2008 panic and its aftermath are about to be exacerbated. Based on the precedents established in 2008, likely reactions from the government and the Fed would be to throw increasingly worthless money at the intensifying crises. Attempts to save the system all have inflationary implications. A domestic hyperinflationary environment should evolve from something akin to these crises before the end of next year (2014). The shifting underlying fundamentals are discussed in *No. 527: Special Commentary*; some of potential breaking crises will be expanded upon in the next revision to the hyperinflation report.

Still Living with the 2008 Crisis. 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 (see new detail in *Commentary No. 530*). The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in calculating key economic series (see *No. 527: Special Commentary*, *Commentary No. 528* 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 ongoing 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 and since the mid-April rout in gold prices, there had and has been mounting hype about the Fed potentially pulling back on its "easing" and a coincident Wall Street push to talk-down gold prices. As discussed in *No. 527: Special Commentary*, those factors appear to be little more than platitudes to the Fed's critics and intensified 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 (see *No. 527: Special Commentary*).

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 that followed the crisis in Cyprus and continuing, related aftershocks.

Still Living with the U.S. Government's Fiscal Crisis. Again, as covered in *No. 527: Special Commentary*, the U.S. Treasury is in the process of going through extraordinary accounting gimmicks, at present, in order to avoid exceeding the federal-debt ceiling. Early-September appears to be the deadline for resolving the issues tied to the debt ceiling, including—in theory—significant budget-deficit cuts.

Both Houses of Congress recently put forth outlines of ten-year budget proposals that still 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. 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, including briefly postponing conflict over the Treasury's debt ceiling, 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*.

U.S. Dollar Remains Proximal Hyperinflation Trigger. 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 has given way to mounting instabilities, and severe market turmoil likely looms, despite the tactics of delay by the politicians and ongoing obfuscation by the Federal Reserve.

This should become increasingly evident as the disgruntled global markets begin to move sustainably against the U.S. dollar. As discussed earlier, a dollar-selling panic is likely this year—still 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 (May 2013)

Despite a Slight Upside Surprise for the Markets, May's Headline Retail Gain Was Statistically Insignificant. The reporting of a statistically-insignificant, monthly headline 0.6% gain for May 2013 was in nominal terms, before adjustment for the effects of inflation. The estimate also was in the context of May 31st benchmark revisions to retail sales (see *Commentary No. 529*), and the renewed seasonal-factor turmoil and instabilities resulting from the first post-benchmark recasting of monthly concurrent seasonal adjustments, discussed below. As covered in the *Week Ahead* section, May 2013 consumer inflation may show a slight month-to-month increase in the CPI-U (due for release on June 18th), which would dampen the otherwise statistically-insignificant nominal gain in real, or inflation-adjusted, terms.

Adjusted for inflation, May 2013 year-to-year change in retail sales, also, likely will remain in a range that would signal pending recession, in normal economic times, effectively indicating a intensified downturn in current circumstances. Further detail will be published along with the availability of the inflation-adjusted series on June 18th.

Actual activity in consumer buying of goods and services remains constrained by the intense, structural-liquidity woes besetting the consumer, as discussed in the *Opening Comments* section. 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 have just clouded activity in the March 2013-to-May 2013 period, and in April 2012-to-May 2012, five months that are published on a non-comparable basis with all the other historical monthly numbers. Although consistent in the May 31st benchmark revision, the first round of post-revision concurrent seasonal adjustments has thrown all the data into disorder. The resulting inconsistencies allow for unreported shifts in the historical data that most likely distort the reporting of current headline numbers.

Note: The stability of the seasonal-adjustment process (particularly the concurrent seasonal-adjustment process used with retail sales) and of sampling methods has been disrupted severely by the unprecedented depth and length of the current economic downturn in the post-World War II era (the period of modern economic reporting. Under such circumstances, where the markets effectively are flying blind as to actual economic activity, consideration of broad underlying fundamentals is essential. Consumer income and credit remain structurally impaired, as discussed in the Opening Comments*,* Hyperinflation 2012 *and* Special Commentary (No. 485).

Nominal (Not-Adjusted-for-Inflation) Retail Sales. Not adjusted for a likely small monthly increase in headline May consumer inflation, this morning's (June 13th) report on May 2013 retail sales—issued by the Census Bureau—indicated a statistically-insignificant, seasonally-adjusted monthly gain of 0.55% (a gain of 0.61%, before prior-period revisions) +/- 0.6% (all confidence intervals are at the 95% level). The May increase followed a revised, statistically-insignificant April month-to-month gain of 0.15% (previously 0.10% in the benchmark revision) +/- 0.4%.

Year-to-year, May 2013 retail sales rose by a significant 4.31% +/- 0.8%, versus a revised 3.66% (previously benchmarked at 3.65%) in April.

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 May 2013, seasonally-adjusted monthly grocery-store sales rose by 0.73%, while gasoline-station sales fell by 0.19%, despite not-seasonally-adjusted gasoline prices have risen by 1.0% for the month. 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: May 2013 versus April 2013 seasonally-adjusted retail sales series—net of total grocery store and gasoline station revenues—rose by 0.63%, versus the official gain of 0.55%.

Version II: May 2013 versus April 2013 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—increased by 0.49%, versus the official gain of 0.55%.

Real (Inflation-Adjusted) Retail Sales. As discussed in the *Week Ahead* section, headline May 2013 CPI-U inflation likely will show a small increase for the month. If it does, the headline real (inflation-adjusted) estimate of the May 2013 monthly gain in retail sales would be somewhat less than the 0.55% nominal growth.

Separately, real year-to-year change likely will remain in the range of historical growth that traditionally has signaled 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 June 18th *Commentary*, which will cover the release of May 2013 CPI-U.

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WEEK AHEAD

Generally, Weaker Economic Data Are Likely for the Balance of May. Despite a near-consensus May payroll report, and above consensus retail sales number, most remaining economic reporting in the month ahead likely will disappoint an overly-optimistic consensus view of the broad economy. Separately, as was the case in the prior two months of consumer-inflation reporting, May 2013 consumer inflation should be muted by seasonal-adjustment constraints on oil and gasoline prices. PPI inflation, however, should turn to the upside with May reporting.

[Except for the specific economic release detail, the text following in the remainder of this Week Ahead *section is unchanged from the prior* Commentary. *Any changes in the PPI and industrial production detail are underlined, while text for the other series is new.]* Going forward, reflecting the still-likely negative impact on the U.S. dollar in the currency markets from continuing QE3 and the still-festering fiscal crisis/debt-ceiling debacle, reporting in the ensuing months and year ahead generally should reflect much higher-than-expected inflation (see *No. 527: Special Commentary*).

Where expectations for economic data in the months and year ahead should tend to soften, weaker-than-expected economic results still remain likely, given the intensifying structural liquidity constraints on the consumer. Increasingly, previous estimates of economic activity should revise lower, particularly in upcoming annual benchmark revisions, as has been seen already in industrial production, new orders for durable goods, retail sales, and the trade deficit, and as likely is pending for construction spending (July 1st). The big event, though, will be the July 31st comprehensive overhaul, benchmark revision and redefinition of the GDP back to 1929. A ShadowStats estimate of the likely net shift in GDP reporting patterns (generally slower growth in recent years) will be published before that revision.

Reporting Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems remain with most major economic series. Headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were 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 impaired reporting methodologies provide particularly unstable headline economic 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 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, severely-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 out happy analyses on otherwise negative numbers. Pushing the politicians and media, the financial markets and their related spinmeisters do their best to hype anything that can be given a positive spin, to avoid recognition of serious problems for as long as possible. Those imbedded, structural problems, though, have horrendous implications for the markets and for systemic stability, as discussed in *Hyperinflation 2012*, *No. 485: Special Commentary* and *No. 527: Special Commentary*.

Index of Industrial Production (May 2013). The release of detail on the May 2013 index of industrial production is scheduled for tomorrow, Friday, June 14th, by the Federal Reserve Board (FRB). With inventories still too high for existing demand levels, an outright monthly contraction in production—below developing positive expectations—is a fair bet for May reporting.

While the ISM's purchasing managers survey (manufacturing) showed an outright contraction for May production, seasonal factor problems in both series have weakened the correlation between ISM and FRB measures. Nonetheless, with negative underlying fundamentals, the ISM production hit was large enough to serve as warning for overly-optimistic consensus estimates on the pending FRB number.

Producer Price Index—PPI (May 2013). The May 2013 PPI is scheduled for release tomorrow, Friday, June 14th, by the Bureau of Labor Statistics (BLS). With flat-to-higher energy prices in the context of likely neutral energy-price related seasonal factors, and with upside food and "core" inflation, the headline May PPI should show positive aggregate price movement, albeit likely not a large gain.

Depending on the oil contract followed, oil prices, on average, were up by 0.3-to-3.0 percentage points for the month of May, with retail gasoline up by 1.0 percentage point. Accordingly, neutrally-adjusted energy inflation should put a positive base under the headline PPI finished goods number.

Consumer Price Index—CPI (May 2013). The release by the Bureau of Labor Statistics (BLS) of the May 2013 CPI numbers is scheduled for Tuesday, June 18th. The CPI could come in near a developing, slightly-positive market consensus.

Average gasoline prices rose month-to-month in May by 1.0 percentage point, on a not-seasonally-adjusted basis, per the Department of Energy. The BLS seasonal adjustments, however, should wipe out most of the increase in gasoline prices and other energy inflation. As recently revised, an unadjusted monthly 3.6% decline in May 2012 gasoline prices was turned into a 4.4% decline by downside seasonal adjustments. Similar effects in the May 2013 number generally would neutralize the effects of higher energy prices on the headline inflation number. Given some likely upside inflation pressures from food prices and core inflation, though, a small headline gain in the May 2013 CPI-U is a reasonable expectation.

Year-to-year, CPI-U inflation would increase or decrease in 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%. For example, a month-to-month unchanged headline May 2013 CPI-U would increase May annual inflation to about 1.2%

Residential Construction (May 2013). Also on Tuesday, June 18th, the Census Bureau will publish the estimate of May 2013 housing starts activity. Despite developing market expectations for a strong headline gain, reported month-to-month change 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, as discussed in the *Opening Comments* section.

