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

COMMENTARY NUMBER 556
August Industrial Production, FOMC Meeting

September 16, 2013

Production Activity Remained Consistent with Renewed Economic Downturn

Neither Banking-System nor Economic Developments Suggest Fed "Tapering," But Heavily-Managed Market Expectations Indicate Near-Term Action

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PLEASE NOTE: The next regular Commentary *is scheduled for tomorrow, Tuesday, September 17th, covering July CPI, real retail sales and earnings, followed on Wednesday, September 18th by a* Commentary *on housing starts. The September 17th release of* Income, Poverty and Health Insurance Coverage: 2012 (The Poverty Report) *also will be covered in the* Commentaries *of the 17th and/or 18th, depending on the timing of the release of the data and complexity of the needed analysis.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Any Shift in Fed Policy Likely Would Be More Symbolic Than of Substance. Wall Street-driven speculation of the Federal Reserve "tapering" its QE3 quantitative easing, dominates current financial-market expectations and reporting. An announcement would come in the post-Federal Open Market Committee (FOMC) meeting press release of Wednesday, September 18th. Where the Fed usually does its best to control and adjust such market expectations, the anticipated minor cutback in bond purchases has to be considered as likely.

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Nonetheless, there has been no meaningful indication of improved, general banking-system conditions, and no serious indication (the Fed does not view the GDP seriously) of rebounding domestic economic activity that otherwise might trigger a retrenchment in the provision of systemic liquidity. Banking-system solvency issues have been the primary driving force behind the Fed's various post-2008 Crisis easing programs, while the weak economy has provided political cover for same. To the extent that U.S. central bank policy changes, it most likely will be as a gesture to the Fed's critics and/or as a potential transitional element in the changing of the Fed's chairmanship. Given ongoing central-bank concerns for systemic stability, any apparent cutback in systemic liquidity most likely will be of little substance.

Whatever happens, the Federal Reserve almost certainly will remain the primary manipulator of the U.S. financial system and domestic liquidity, in an ongoing effort to avoid banking-system collapse. Based on precedents set in 2008, the U.S. central bank should continue to pursue whatever avenues it deems necessary, at whatever cost, to keep the banking system afloat. The general economic and financial outlook here has not changed, and it is not about to change, but the planned update to the *Hyperinflation Outlook* section in the pending September 18th *Commentary* will incorporate any alterations to stated Fed policies.

This morning's 0.4% headline gain in August industrial production was minimally below expectations, well within normal volatility for the series. Another month of flat activity, though, which likely was closer to underlying reality, might have caused increased uncertainties as to the FOMC meeting. Even so, the August production numbers still signaled renewed, broad economic contraction in the months ahead.

A review of key August economic reporting and the Federal Reserve's actions, again, will be covered in the September 18th *Commentary*.

Industrial Production—August 2013. Consistent with recent stagnation and/or renewed monthly downturn seen in broad business activity, the 0.4% monthly increase in August industrial production was well within the normal volatility of the series. Separately, year-to-year production growth had slowed to 1.4% in July 2013, a pattern and level last seen in mid-2008, which was well into the early stages of the formal 2007 recession. In August 2013, annual growth rebounded to 2.7%, but that growth pickup was due primarily to comparative August 2012 activity having been depressed by Hurricane Isaac. Allowing for that circumstance—in normal economic times—the current pattern of year-to-year growth would be consistent with a new recession that already was underway.

In the context of minor upside revisions to the prior six months of production activity, headline monthly August production activity was up by 0.4% (0.41% at the second decimal point), up by 0.42% before prior-period revisions. The August gain was against an unrevised "unchanged" July, at the first decimal point. At the second decimal point, July was down a revised 0.03%, versus a previous 0.04% monthly gain.

The monthly aggregate 0.4% gain in August production reflected a 0.7% gain in manufacturing, which was against a downwardly revised 0.4% (previously 0.1%) contraction in July manufacturing. Headline mining activity, including oil and gas activity, gained 0.3% for the month, following a revised monthly 2.4% (previously 2.1%) increase in July, while ever-unstable utility activity fell by 1.5% in the month, after a revised 1.3% (previously 2.1%) decline in July.

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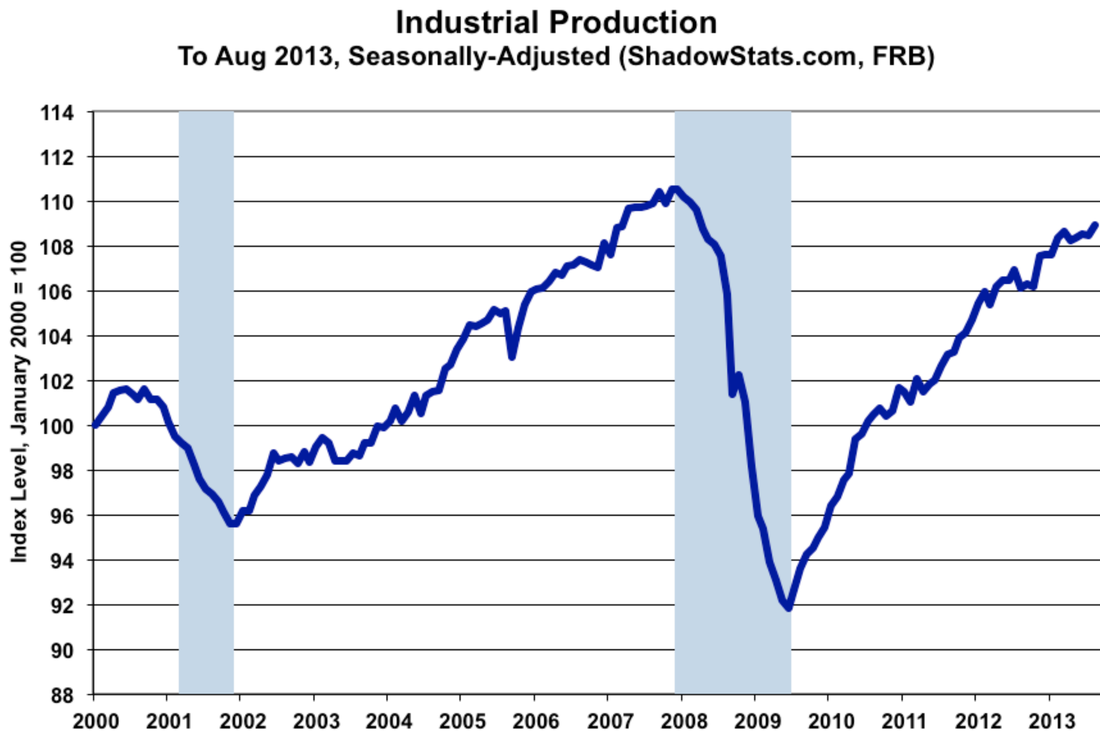
Year-to-year, August 2013 growth bounced back to 2.66% (again, boosted on a relative basis against hurricane-depressed activity of the year before). That followed a revised 1.43%, and a revised 1.91% in June. Allowing for the special factors in the comparative August 2012 numbers, annual growth has slowed to levels last seen during the mid-2008 economic collapse and has remained consistent with annual growth patterns seen going into recessions.

Graphs showing the headline index level and year-to-year changes in production are found in the *Reporting Detail*. The following graphs, however, show official production activity as well as the official data net of inflation distortions.

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



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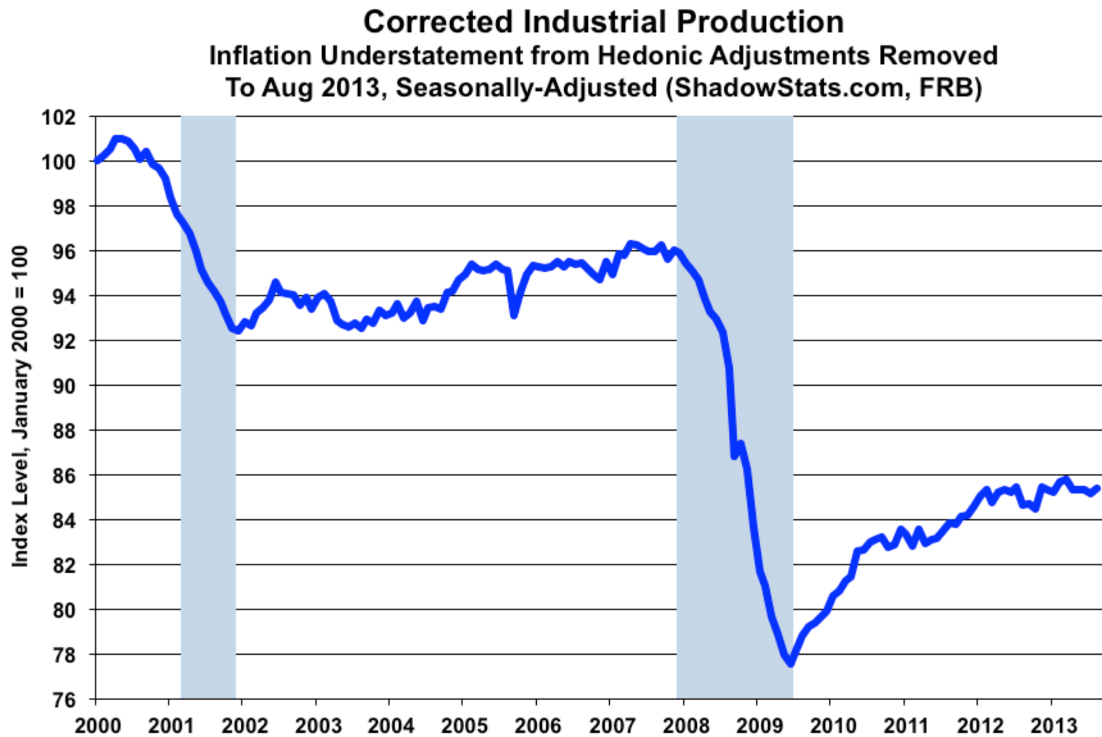

The “corrected” graph does show some growth in the period following the official June 2009 near-term trough in production activity. Yet, that upturn has been far shy of the full recovery and the renewed expansion reported in official GDP estimation. Production levels have not regained pre-recession highs (even uncorrected August 2013 activity is shy of the pre-recession peak by 1.5%) but, instead, entered a period of protracted low-level stagnation in 2012, with quarterly contractions in third-quarter 2012, second-quarter 2013, and with continued, renewed downturn/stagnation in third-quarter 2013.

[For further detail on the August industrial production, see the **Reporting Detail** ***section.]***

HYPERINFLATION WATCH

Hyperinflation Outlook—Unchanged. The next update of the *Hyperinflation Outlook* is planned for the Wednesday, September 18th *Commentary.* This summary has been not been revised since *Commentary No. 550* of August 16th. The comments here are 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, a fully-updated hyperinflation report is planned in the near future.

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. The FOMC and Federal Reserve Chairman Ben Bernanke have put forth a plan for reducing and eventually ending quantitative easing in the form of QE3. The tapering or cessation of QE3 is contingent upon the U.S. economy performing in line with overly-optimistic economic projections provided by the Fed. Initially, market reaction pummeled stocks, bonds and gold. Yet, the talk of ending (or extending/expanding) QE3 still appears to be little more than jawboning, aimed either at placating a growing chorus of Fed critics or at manipulating variously the gold, currency and domestic-stock markets. Indeed, as part of the ongoing mind-games with the public, various Fed officials regularly offer contradictory stories, when the stock market needs a boost or distraction from other concerns, such as pending discord over U.S. fiscal policy.

Underlying economic reality remains much weaker than Fed projections. As actual economic conditions gain broader recognition, market sentiment should shift increasingly towards no imminent end to QE3, and then to expansion of QE3. The markets and the Fed are stuck with underlying economic reality, and, eventually, they will have to recognize same. Business activity 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. Specifically, banking-system solvency and liquidity remain the primary concerns for the Fed, driving the quantitative easing. Economic issues are secondary concerns for the Fed; they are used as political cover for QE3. That cover will continue for as long as the Fed needs it.

At the same time, 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. These factors, in combination, show the end game to be nearing, and while they may have been in recent summer-holiday hibernation, post-Labor Day political turmoil is imminent.

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, at any time, with little or no warning. 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 precedents established in 2008, likely reactions from the government and the Fed would be to throw increasingly worthless money at the intensifying crises, hoping to push the problems even further into the future. Such attempts to save the system, however, all have exceptional inflationary implications.

The global financial markets appear ready to move beyond the forced patience with U.S. policies that had been induced by the financial terror of the 2008 panic. Accordingly, the U.S. dollar faces likely extreme and negative turmoil in the months ahead. A domestic hyperinflationary environment still 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. Despite the happy news from the redefined GDP series that the recession was shallower, and the recovery more rapid, than previously estimated, there still never has been an actual recovery following the economic downturn that began in 2006, and collapsed into 2008 and 2009. No other major economic series has confirmed the pattern of activity now being reported in the GDP.

Instead, what followed was a protracted period of business stagnation that began to turn down anew in second- and third-quarter 2012 (see the corrected GDP graph in the *Opening Comments* section of *Commentary No. 546*). 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 still should gain eventual recognition as the second-dip in a double- or

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multiple-dip recession, with current reporting in basic economic series coming into synchronization with a renewed downturn in broad economic activity starting in second- and third-quarter 2013.

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. As of August 15, 2013, the Fed had monetized 110% of the net issuance of U.S. Treasury debt, since the beginning of the calendar year.

The Fed's unconscionable market manipulations and games playing in fueling speculation over the future of quantitative easing clearly have been used to move the U.S. dollar (the purpose of initial quantitative easing was U.S. dollar debasement). QE3 and continuing efforts at dollar-debasement are not about to go away. 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. The loss of some reserve status for the U.S. dollar is likely, as the crises break, and that would intensify both the dollar-selling and domestic U.S. inflationary pressures.

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 soft 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 still 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 have put forth outlines of ten-year budget proposals that remain 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*). Recent reductions reported in the year-to-date cash-based 2013 deficit reflect gimmicks such as the U.S. government declaring itself dividends out of government-backed and

controlled Fannie Mae and Freddie Mac. Those dividends also have helped the Treasury operate around the limits of the current debt ceiling. If the government consolidated those entities into its financial statements, as would happen in the corporate world, the deficit position would be much bleaker, as it is otherwise with generally accepted accounting principles or GAAP-based accounting.

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 global markets previously had expressed their extreme discomfort with the unresolved longer-range sovereign solvency issues of the United States, by dumping dollars at the time of the failed July/August 2011 fiscal negotiations. The continuing unwillingness and political inability of the current government to address those issues, only pushes along the regular unfolding of events that eventually will trigger a massive flight from the U.S. dollar and 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 extreme 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 near-term—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 intermittent panicked selling of gold has not been. 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.

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REPORTING DETAIL

INDEX OF INDUSTRIAL PRODUCTION (August 2013)

August Industrial Production—Pattern of Unfolding Recession Remained Place. The headline 0.4% monthly gain in August industrial production was well within the normal volatility of the series and, accordingly, was consistent with the ongoing stagnation or renewed downturn in broad business activity that had been seen in the months before. Year-to-year growth had slowed to 1.4% in July 2013, a level last seen in slowing annual activity in mid-2008, which was well into the early stages of the formal 2007 recession. Annual growth in August rebounded to 2.7%, but that growth pickup was due primarily to hurricane-depressed activity in the comparative August 2012 numbers. Allowing for that circumstance—in normal economic times—this pattern of activity would be consistent with a new recession that already was underway.

Industrial Production—August 2013. The Federal Reserve Board released its estimate of seasonally-adjusted, August 2013 industrial production this morning, September 16th. In the context of minor upside revisions to the prior six months of production activity (the period open to revision), headline monthly August production activity was up by 0.4% (0.41% at the second decimal point), up by 0.42% before prior-period revisions. The August gain was against an unrevised "unchanged" July, at the first decimal point. At the second decimal point, July was down a revised 0.03%, versus a previous 0.04% monthly gain.

The headline 0.4% increase in aggregate August production activity reflected a 0.7% gain in manufacturing, which was against a downwardly revised 0.4% (previously 0.1%) contraction in July manufacturing. Headline mining activity, including oil and gas activity, gained 0.3% for the month, following a revised monthly 2.4% (previously 2.1%) increase in July, while ever-unstable utility activity fell by 1.5% in August, after a revised 1.3% (previously 2.1%) decline in July.

Year-to-year growth in August 2013 bounced back to 2.66%, but that was against an unusually sharp drop in year-ago monthly activity from the impact of Hurricane Isaac. The August annual growth rate followed a revised 1.43% (previously 1.42%) in July 2013, and a revised 1.91% (previously 1.83%, initially 1.98%) in June. Allowing for the special factors in the comparative August 2012 numbers, annual growth has slowed to levels last seen during the mid-2008 economic collapse, and is consistent with annual growth patterns going into recession.

The "recovery" in industrial production is reflected in the following two sets of graphs. The first graph in the first set shows the monthly level of the production index, while the second graph shows the year-to-year or annual percentage change in the same series for recent historical detail, beginning January 2000. The second set of graphs shows the same data in historical context since World War II.

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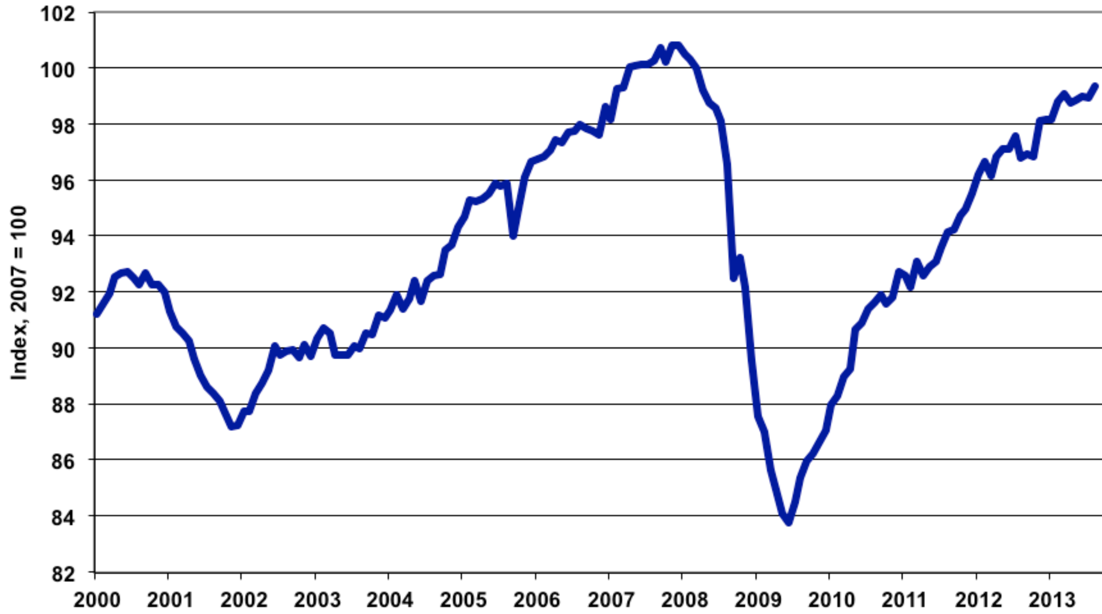
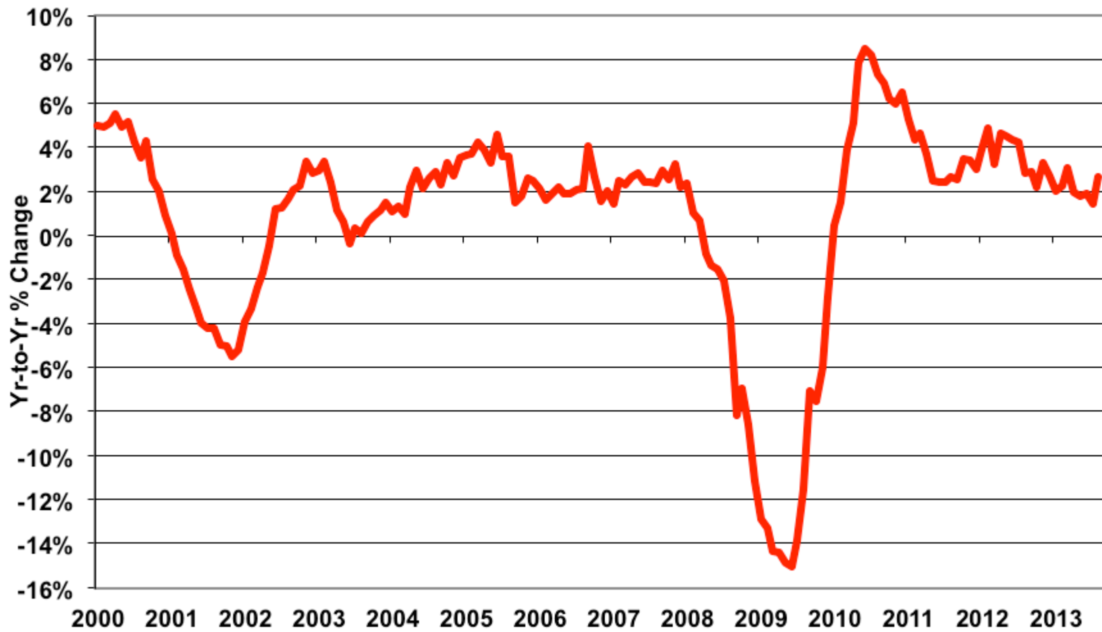
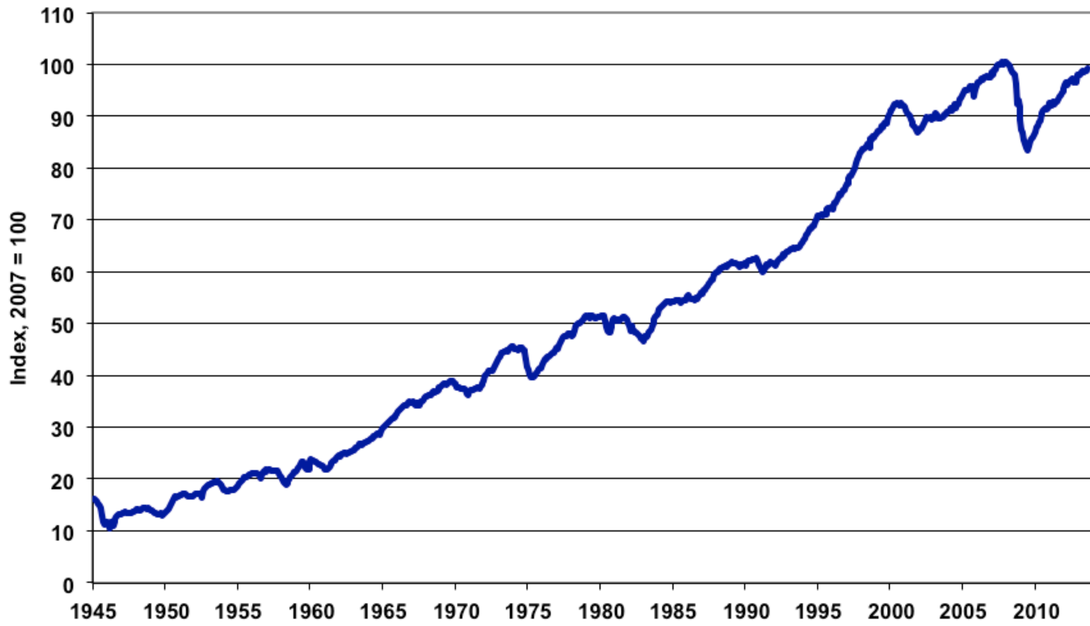
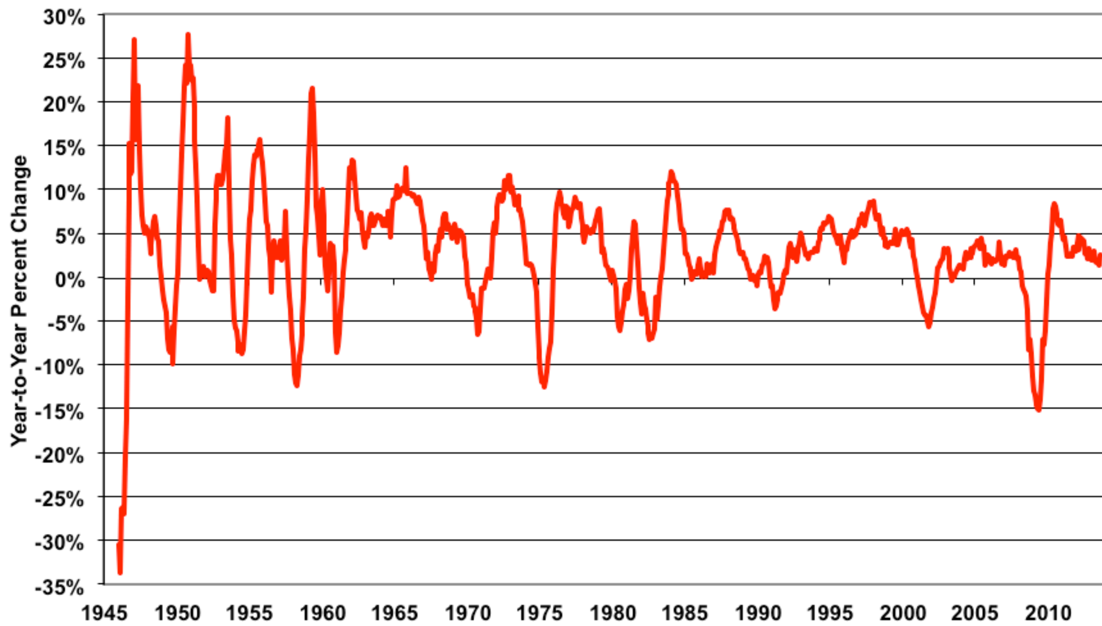

Index of Industrial Production
To Aug 2013, Seasonally-Adjusted (FRB)
Index, 2007 = 100
102
100
98
96
94
92
90
88
86
84
82
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013


Industrial Production Year-to-Year % Change
Jan 2000 to Aug 2013, Seasonally-Adj. (ShadowStats, FRB)
Yr-to-Yr % Change
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
-14%
-16%
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013





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As shown more clearly in the first set of graphs, current activity has dipped lower, and annual growth has slowed to levels last seen in a slowing-growth pattern in the first two quarters of the formal 2007 recession. Annual growth remains well off the recent relative peak for the series, which was 8.50% in June 2010, going against the official June 2009 trough of the economic collapse. Indeed, as shown in the second set of graphs, the year-to-year contraction of 15.02% in June 2009, at the end of second-quarter 2009, was the steepest annual decline in production since the shutdown of war-time production following World War II.

Although official production levels have moved higher since the June 2009 trough, the headline series still remains 1.5% shy of a full recovery and appears to be turning down or stalling, anew, unlike the dubious data in the GDP, which show full recovery as of second-quarter 2011, with continuous, new expansion ever since.

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

WEEK AHEAD

Weaker-Economic and Stronger-Inflation Reporting Continue to Be Likely in the Month and Months Ahead. *[Other than for minor wording adjustments (underlined) to the comments on the pending releases, this* Week Ahead *section is unchanged from the prior* Commentary.*]* Although there appears to have been some downside adjustment to consensus expectations on the economy, the markets still are overly optimistic. That circumstance and underlying fundamentals that are suggestive of deteriorating business activity, mean that weaker-than-consensus economic reporting should remain the ongoing trend.

Separately, given that energy-inflation-related seasonal-adjustment factors are on the plus-side for a couple of months, combined with stable or higher oil and gasoline prices—exacerbated at the moment by political tensions in the Middle East—stronger-than-expected headline CPI and PPI also are likely for at least the next month or two.

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Reflecting the still-likely negative impact on the U.S. dollar in the currency markets, pending from continuing QE3, and the still-festering fiscal crisis/debt-ceiling debacle (see *Hyperinflation Outlook* section), reporting in the ensuing months and year ahead generally should reflect much higher-than-expected inflation (see *No. 527: Special Commentary*).

Where market expectations for economic data in the months and year ahead should continue to soften, still-weaker-than-expected economic results remain likely, given the intensifying structural liquidity constraints on the consumer, as discussed in the *Opening Comments*.

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*.

Consumer Price Index—CPI (August 2013). The release by the Bureau of Labor Statistics (BLS) of the August 2013 CPI numbers is scheduled for tomorrow, Tuesday, September 14th. The headline CPI is a fair bet to come in around the market consensus of about 0.2%.

Average gasoline prices eased month-to-month in August 2013 by 0.4 percentage point, for a second month, on a not-seasonally-adjusted basis, per the Department of Energy. The BLS seasonal adjustments, however, largely should offset the nominal monthly decline in gasoline prices. As last revised, an unadjusted monthly 7.2% gain in August 2012 gasoline prices was widened to a 7.6% gain, with upside seasonal adjustments. Similar effects in the August 2013 number would push the unadjusted monthly gasoline price contraction to neutral. Given likely upside inflation pressures from food prices and core inflation, a modest headline gain in August 2013 CPI-U is a reasonable expectation.

Year-to-year, CPI-U inflation would increase or decrease in the August 2013 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.52% increase in monthly inflation reported for

August 2012. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for August 2013, the difference in August's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the July 2013 annual inflation rate of 1.96%. For example, if the headline August CPI-U inflation were 0.2%, annual inflation would slow to approximately 1.6% or 1.7%.

2013 Poverty Report (2012 Data). Also due for release tomorrow, Tuesday, September 17th, sometime after 10 a.m. Washington time, is the Commerce Department's *Income, Poverty and Health Insurance Coverage: 2012*, popularly known as the *Poverty Report*. As discussed more fully in the *Opening Comments* section of *Commentary No. 555*, the *Poverty Report* is a heavily politicized document, as to its estimates of people in poverty, its estimates of poverty thresholds, and its unconscionable use of the CPI-U-RS to minimize negative historical trends in the poverty and income data.

Of significance in the report, though, are the nominal income numbers and estimates of income distribution, and the Census Bureau will estimate real median household income for the year of 2012. Where annual activity should have some relationsip to estimates of the monthly data discussed in *No. 555,* the annual real median household income number for 2012 likely will be little changed (either up or down), and it should continue to hold below pre-recession levels. The various estimates of income variance or dispersion likely will have deteriorated further in 2012, versus 2011. All these are factors that should confirm the ongoing structural liquidity issues impairing consumer spending.

Residential Construction (August 2013). On Wednesday, September 18th, the Census Bureau will publish its estimate of August 2013 housing starts activity. Despite near-perpetual market expectations for strengthening activity in housing starts, reported month-to-month change likely will continue to be statistically-insignificant, with ongoing stagnation seen in the aggregate series, as well as particularly 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 and still does not appear to be in the offing.

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