

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

**COMMENTARY NUMBER 569**  
**Consumer Liquidity, September Retail Sales, PPI**  
**October 29, 2013**

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**Retail Sales Contraction Should Deepen After Inflation Adjustment**  
**PPI Pulled Lower by Plunging Food Prices?**  
**Real Durable Goods Orders Show No Economic Recovery**

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*PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Wednesday, October 30th, covering the September CPI, and related real (inflation-adjusted) retail sales and earnings.*

*Best wishes to all — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**The U.S. Economy Continues to Weaken.** Today's (October 29th) economic comments cover September's nominal (not-inflation adjusted) retail sales, real (inflation-adjusted) durable goods orders and the September PPI. Also discussed is the latest reporting for major indicators of consumer liquidity, indicators that drive consumer spending and the bulk of broad economic activity. Without growth in real

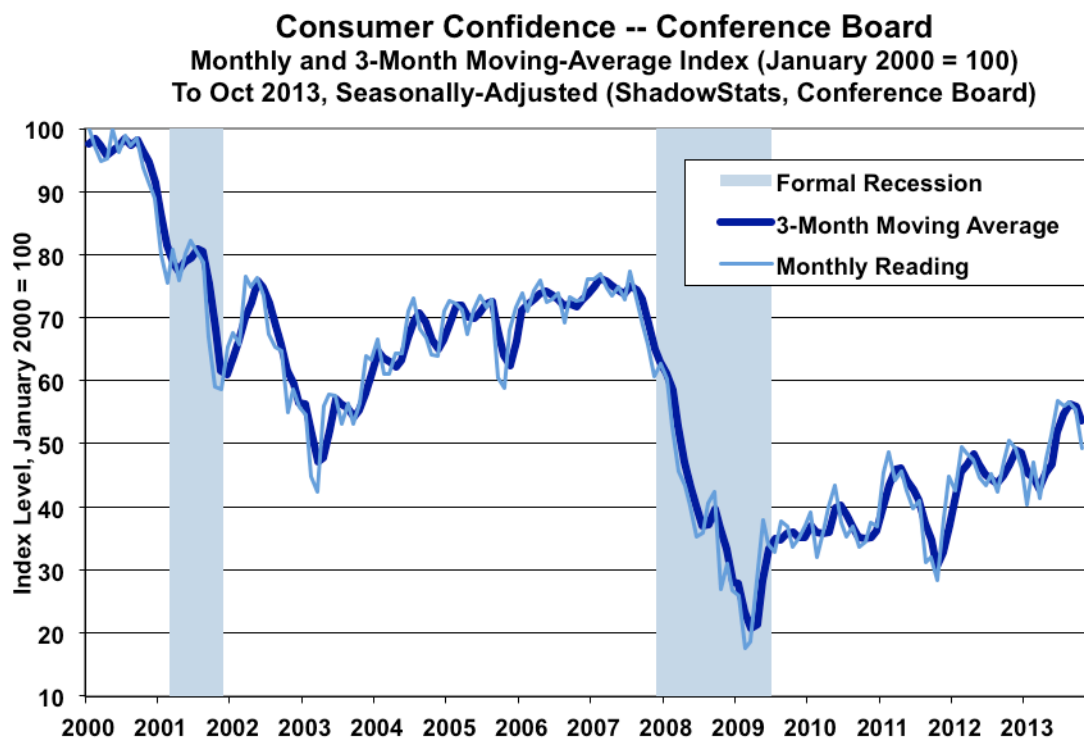
income, without new credit availability and without strong consumer confidence, sustainable economic growth—let alone a fully-recovered and expanding U.S. economy—simply is not possible.

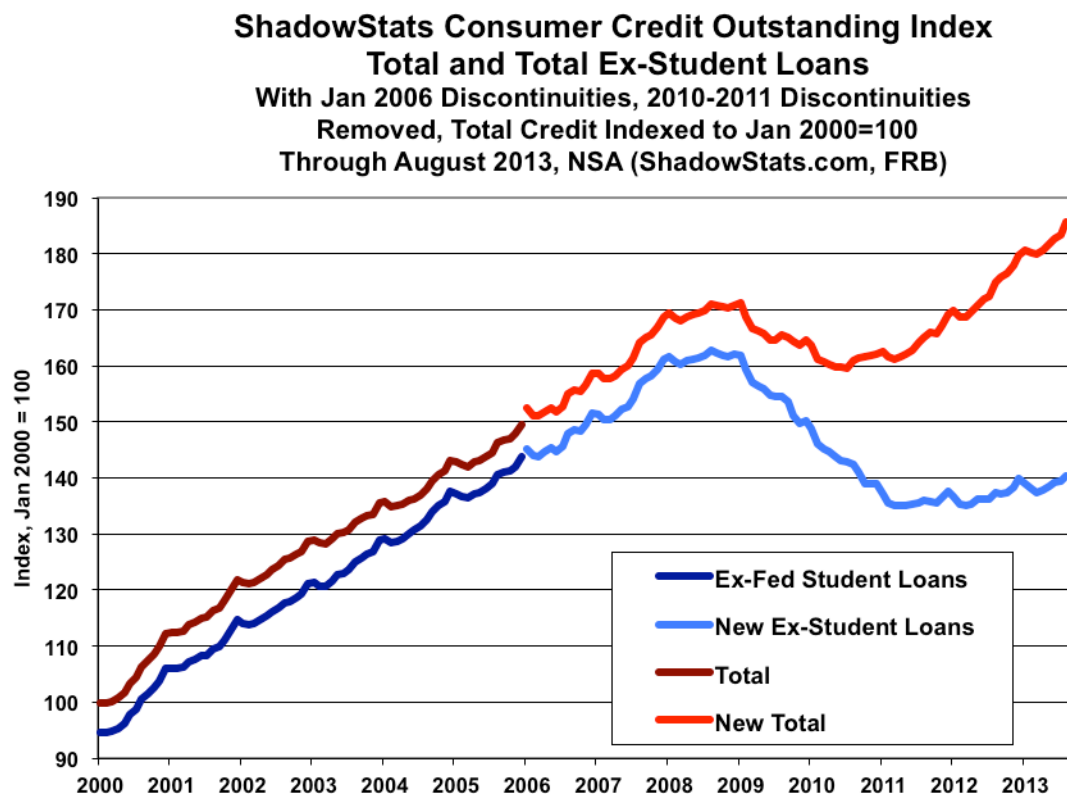
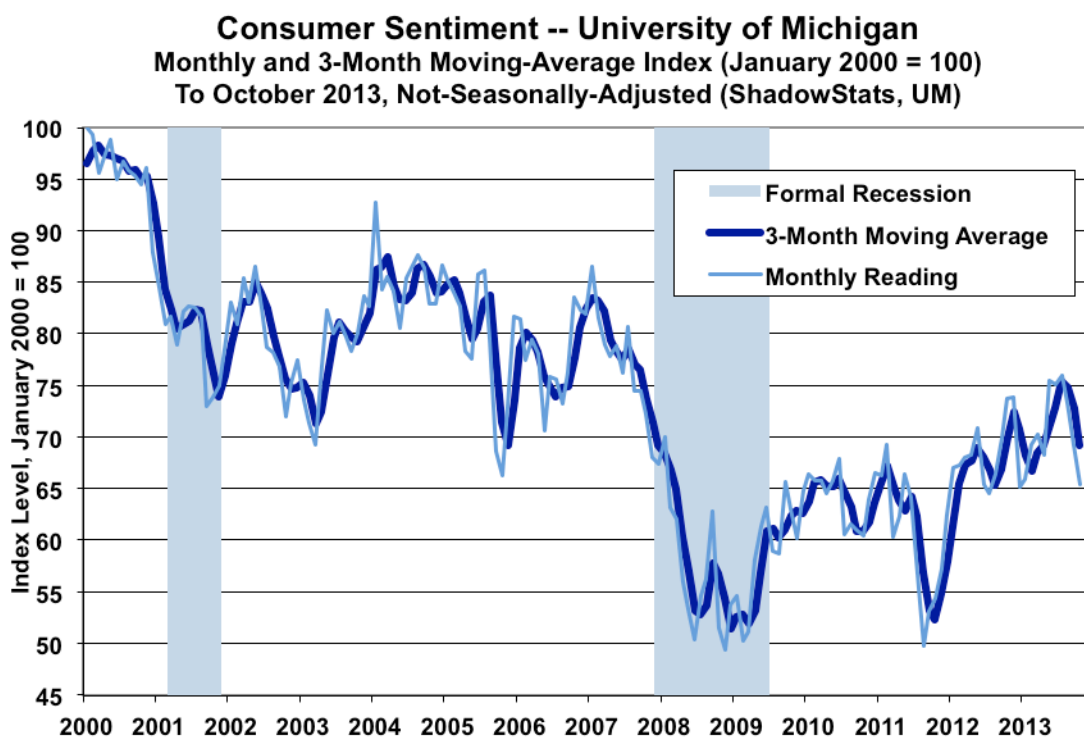
Tomorrow's October 30th *Commentary* will cover the September CPI and review the economic data for September and third-quarter 2013, in the context of broad-economic conditions. In general terms, the economic outlook has dimmed markedly in recent reporting.

***Broad Economy Still Is Dependent on Structurally-Challenged Consumer Liquidity.*** Sustainable growth in retail sales and personal consumption is not possible without parallel growth in consumer income and liquidity. Inflation-adjusted median household income is not growing, and without the availability of normal debt expansion (consumer credit outstanding) and with an ongoing lack of willingness for the consumer to spend or to take on new debt (confidence and sentiment), there is no economic recovery in place or pending.

The following series of graphs reflects the latest published detail on liquidity conditions for the consumer. The first two plots are of the Conference Board's consumer confidence survey for October (updated this morning, October 29th), and of the full-October version of the University of Michigan's consumer sentiment series (updated October 25th). Both series show renewed downturns (on both a monthly and three-month moving-average basis), helped to the downside in October by the government-shutdown and debt-ceiling negotiations.

Despite the repeated upticks in the series and subsequent declines or flattening, the mood of consumers remains at a low levels that commonly are seen deep in post-World War II recessions, not in expanding economic recoveries, as now touted in the regular reporting of gross domestic product (GDP).

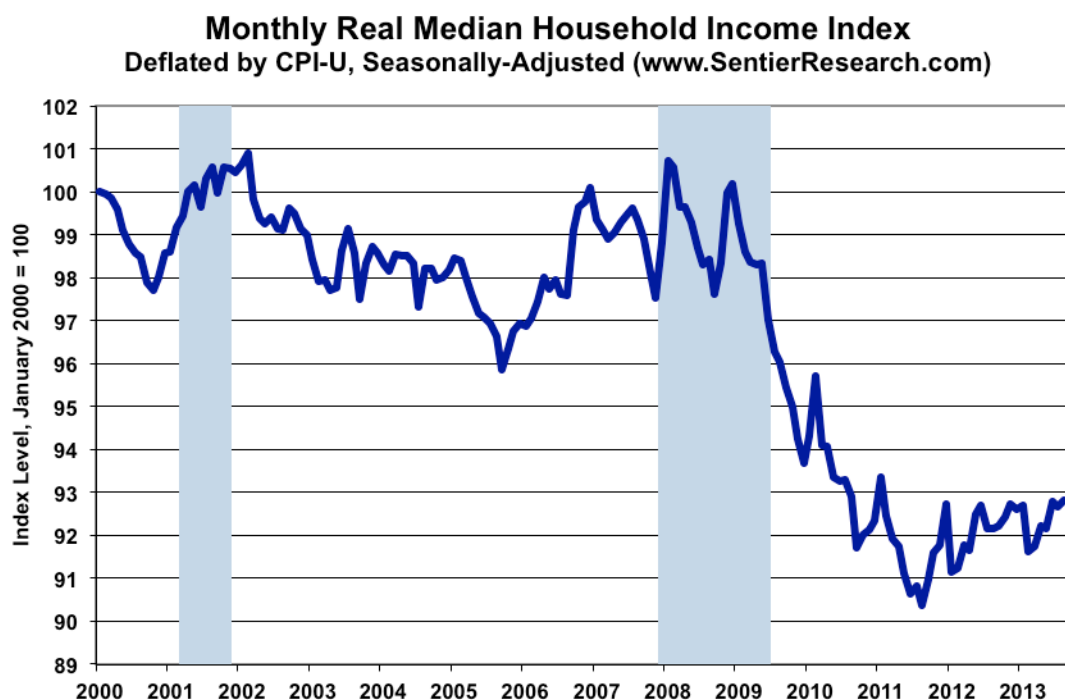


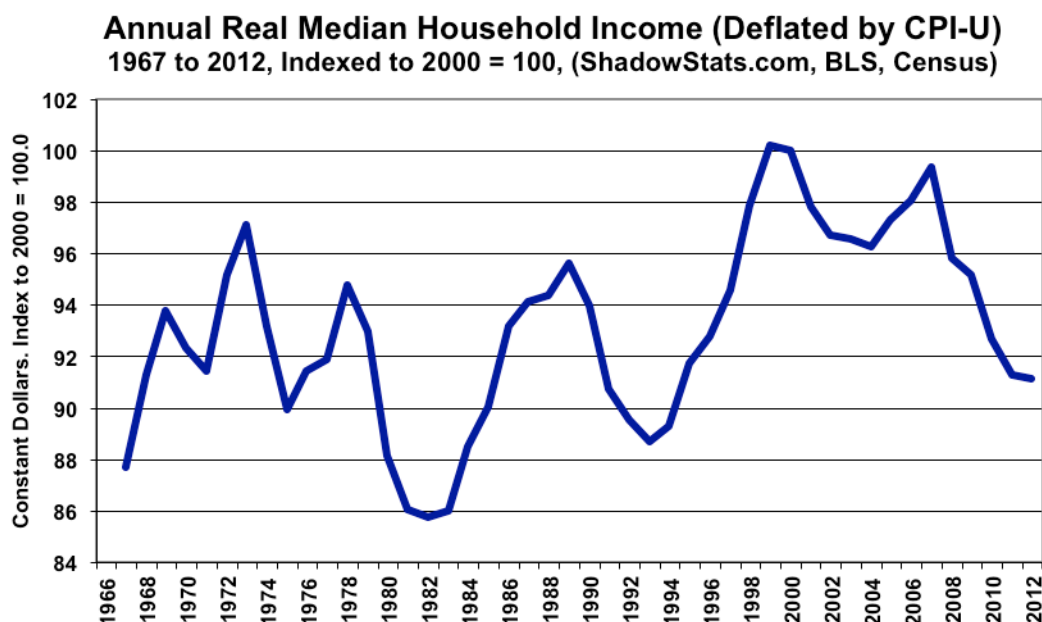


The third graph shows the previously-published estimate of August 2013 consumer credit outstanding, from the Federal Reserve. As has been the case for the full post-2008 financial-panic period, nearly all the growth seen in this series has been due to the expansion of student loans (primarily federally-owned), not due to bank lending to consumers that otherwise could help fuel broad consumer activity. The lack of regular bank lending into the regular flow of commerce remains an indicator of ongoing solvency and liquidity issues within the U.S. banking system.

The next graph reflects the previously-published estimate of real (inflation-adjusted) median household income as of August 2013 (data courtesy of [www.SentierResearch.com](http://www.SentierResearch.com)). The September number is scheduled for release on November 7th, delayed in tandem with the availability of current data out of the government statistical agencies that were disrupted by the recent shutdown.

As more fully discussed in [Commentary No. 558](#), the monthly measure of median household income (deflated by headline CPI-U) plunged throughout the economic collapse, and continued to fall-off sharply as the economy purportedly started its recovery in mid-2009. For the last two years, household income has been stagnant, holding near its cycle low. Separately, based on Census Bureau reporting, current real median household income is at levels seen in the late-1960s and early-1970s, as reflected in the second graph following.





**Retail Sales—September 2013.** The headline decline of 0.11% in September retail sales was reflective of the ongoing constraints on the U.S. consumer, from the intense, structural liquidity woes just discussed. The September contraction should deepen in real (inflation-adjusted) terms, based on a likely increase in headline September CPI-U inflation. Real retail sales for September will be covered in tomorrow's *Commentary No. 570* on the CPI release.

The near-consensus sales decline was muted by a downside revision to August sales. Although boosted by higher, seasonally-adjusted gasoline and food prices, the headline nominal retail sales change was dominated by a 2.17% monthly drop in September automobile sales. If accurate, that suggests that automobile inventories are backing up, based on the higher auto production reported yesterday in September industrial production.

**Nominal (Not-Adjusted-for-Inflation).** Not adjusted for September inflation, September 2013 retail sales showed a statistically-insignificant, seasonally-adjusted monthly contraction of 0.1% (0.11% at the second decimal point, a decline of 0.2% [0.16%] before prior-period revisions). The September increase followed a revised, statistically-insignificant month-to-month gain of 0.20%. Year-to-year, September 2013 retail sales slowed to a statistically-significant 3.23% increase, versus a revised 4.62% in August.

**Producer Price Index (PPI)—September 2013.** The headline, seasonally-adjusted finished-goods producer price index (PPI) for September 2013 declined by 0.05% (down up by 0.40% unadjusted), versus a monthly gain of 0.30% (up by 0.41% unadjusted) in August. A somewhat questionable plunge in food prices pulled the aggregate, seasonally-adjusted index lower.

September's minimal decline in finished goods reflected a seasonally-adjusted 1.02% (0.83% unadjusted) monthly decline in food costs, a seasonally-adjusted gain of 0.47% (a 0.66% unadjusted decline) in

energy costs, and a seasonally-adjusted 0.05% increase in month-to-month “core” inflation (net of food and energy), which was an unadjusted 0.11% decline.

Unadjusted and year-to-year, September 2013 total finished-goods PPI inflation eased to 0.31%, from 1.38% in August.

*Intermediate and Crude Goods.* Reflecting minimally-changed average oil prices, seasonally-adjusted September 2013 intermediate-goods inflation was up by 0.1%, month-to-month, having been unchanged in August, while September crude-goods gained 0.5% for the month, after declining by 2.7% in August.

Year-to-year inflation in unadjusted September 2013 intermediate goods fell by 0.5%, having gained 0.5% in August. Year-to-year inflation in September 2013 crude goods slowed to a 0.3% gain, from 1.6% increase estimated for August.

***Real Durable Goods Orders—September 2013.*** In nominal terms, before consideration of inflation effects, September headline durable goods orders were up for the month by 3.66%, versus an August gain of 0.24%. Year-to-year growth was 7.44% in September, down from 13.81% in August. These details previously were discussed in [Commentary No. 567](#).

The reporting of monthly surges and contractions in commercial aircraft orders is seen in an irregularly repeating the process throughout the year. These extremely volatile orders, which usually dominate the aggregate durable goods growth numbers, are booked well into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity. They dominated the gains in September reporting. Net of those commercial aircraft, aggregate new orders rose by a monthly 0.64% in September and fell by a revised 0.03% in August. Year-to-year gains on that basis were 6.64% for September and 8.42% for August.

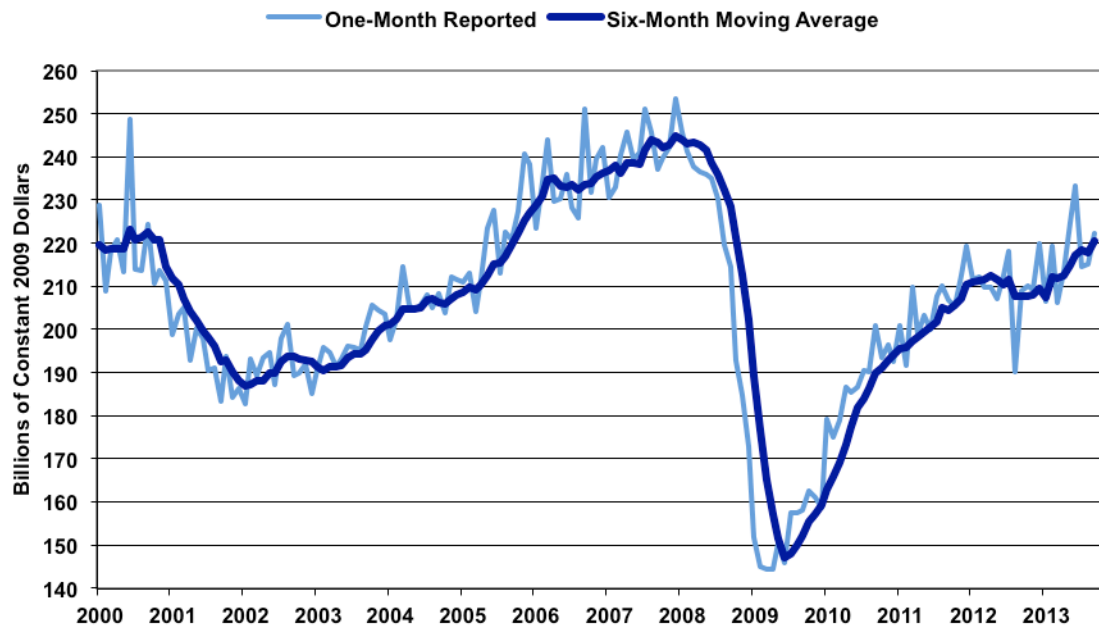
Those same numbers, adjusted for PPI finished goods capital equipment inflation, are published here, in today’s *Commentary*, due to the reshuffling of economic release schedules (PPI) as a result of the recent government shutdown.

*Inflation-Adjusted.* Headline monthly inflation in the PPI finished goods, capital equipment measure was 0.30% month-to-month in September, versus a negative 0.06% in August. On an annual basis, September inflation was 0.86%, versus 0.55% in August.

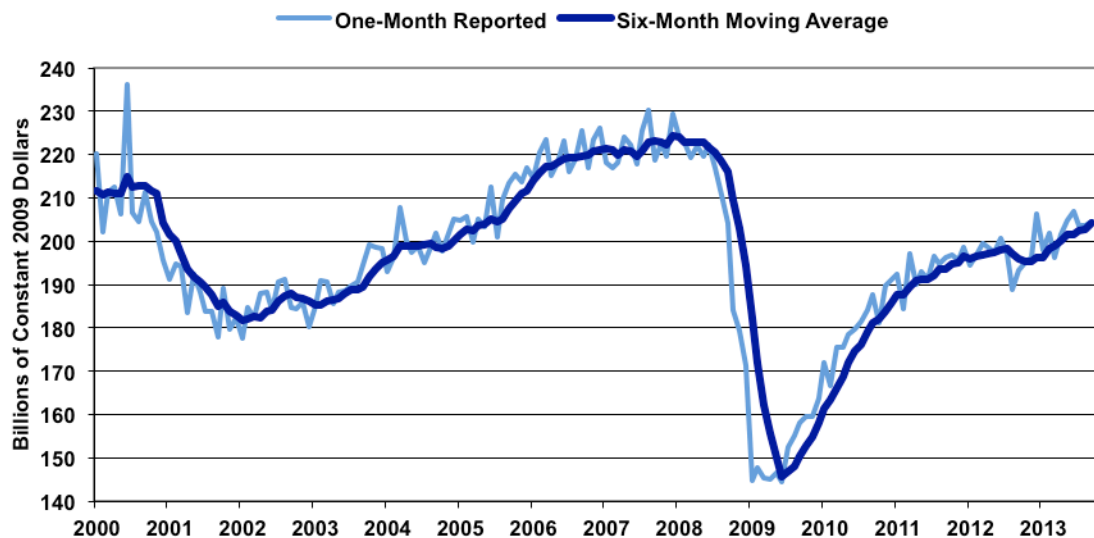
Adjusted for that inflation, and reflected in the accompanying graphs, real month-to-month orders gained 3.35% in September, versus 0.30% in August (aggregate); 0.33% in September, versus 0.03% in August (ex-commercial aircraft). Real year-to-year orders gained 6.52% in September, versus 13.19% in August (aggregate); 5.74% in September, versus 7.82% in August (ex-commercial aircraft).

*Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders.* As usually shown and discussed in the regular *Commentaries* that cover reporting of new orders for durable goods, the following two graphs plot the new orders, adjusted for inflation. These graphs show the monthly as well as a six-month moving average of activity levels. The first graph shows the aggregate new orders series. The second series is net of the unstable commercial-aircraft order sector, and, accordingly, it is somewhat smoother than the first graph. As reflected in these graphs of still-irregular activity, the moving-average levels in both series have been holding in a pattern of near-stagnation, with mixed trends the most-recent months.

**Real New Orders for Durable Goods**  
Deflated by PPI--Finished Goods Capital Equipment  
To Sep 2013, Seasonally-Adjusted (ShadowStats.com, Census, BLS)



**Real Durable Goods Orders (Ex-Nondefense Aircraft)**  
Deflated by PPI--Finished Goods Capital Equipment  
To Sep 2013, Seasonally-Adjusted (ShadowStats.com, Census, BLS)





In terms of inflation-adjusted activity, both of these series have shown a slowing uptrend and flattening-out in the last two-to-three years—most recently with a dip and upside bouncing, a general pattern of stagnation or bottom-bouncing—clearly not the recovery that is seen in official GDP reporting. The real (inflation-adjusted) level of orders in September 2013 remained at or below both the pre-2001 and pre-2007 recession highs. The pattern of recent stagnation in the inflation-adjusted series also is one that commonly precedes or is coincident with a recession.

If the deflation measure here were corrected meaningfully for the hedonic-adjusted understatement of the respective PPI inflation measure, the post-2009 uptrend in real orders likely would be little more than a flat line, reflecting ongoing bottom-bouncing along a low-level plateau of economic activity, with a pattern of renewed downturn now well entrenched.

*[For further detail on September retail sales and the producer price index (PPI), see the Reporting Detail section.]*

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## HYPERINFLATION WATCH

**Summary Hyperinflation Outlook.** The *Hyperinflation Outlook* was partially rewritten in *Commentary No. 567* (repeated here without change), along with some detail on the pending publication of *Hyperinflation 2014—The End Game*, which will be a fully-updated version of [Hyperinflation 2012](#) (see [Commentary No. 567](#) for detail).

This summary is intended as guidance for both new and existing subscribers, who are looking for a brief version of the broad outlook on the economic, systemic and inflation crises that face the United States in the year or so ahead.

**Recommended Background Material.** [Commentary No. 559](#) (September 2013) and [No. 527: Special Commentary](#) (May 2013) supplemented [No. 485: Special Commentary](#) (November 2012), which reviewed 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 use here also are [No. 500: Special Commentary](#) on GAAP-based federal deficit reality and 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 or recent months, other than events keep moving towards the circumstance of a domestic U.S. hyperinflation by the end of 2014. Nonetheless, a fully-updated *Hyperinflation 2014—The End Game* is planned by the end of November, again, as discussed in [Commentary No. 567](#).

***Hyperinflation Timing, Set for 2019 Back in 2004, Advanced to 2014 in Aftermath of 2008 Panic.***

While the U.S. government has lived excessively beyond its means for decades, it was not until the December 2003 (federal government's 2004 fiscal year) enactment of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 that the United States was set solidly on a course for eventual hyperinflation. Back in 2004, ShadowStats began forecasting a hyperinflation by 2019; that forecast was advanced to 2014 as a result of the nature of, and the official handling of the 2008 panic and near-collapse of the domestic financial system. The hyperinflation forecast for 2014 remains in place, with 90% odds estimated in favor of its occurrence.

The initial unfunded liabilities for the Medicare overhaul, alone, added nearly \$8 trillion in net-present-value unfunded liabilities to the fiscal-2004 federal deficit, based on generally accepted accounting principles (GAAP accounting), exceeding the total \$7.4 trillion gross federal debt of the time. When approached by ShadowStats as to how this circumstance likely would lead to an eventual domestic hyperinflation, the response from a member of the Bush Administration was “that is too far into the future to worry about.”

That future has come too quickly. Adjusted for one-time events, GAAP-based federal deficits have averaged \$5 trillion per year for the last seven years, with government spending and financial commitments exploding out of control. As of fiscal-2012 the GAAP-based annual federal deficit was an uncontrollable and uncontrollable \$6.6 trillion, with gross federal debt at \$16.2 trillion and total federal obligations (net present value) in excess of \$85 trillion, more than five-times the level of annual GDP and deteriorating at an annual pace in excess of \$6 trillion per year. Details can be found in [No. 500: Special Commentary](#).

On a GAAP-basis, the United States faces long-range insolvency. The global financial markets know it, and so do the miscreants currently controlling the U.S. government. Yet, as just demonstrated in the crisis negotiations surrounding the federal-government shutdown and debt ceiling, there is no controlling, political will in Washington to address the long-term solvency issues. The still-fester budget crisis and recent negotiations reflect no more than the formal, continued posturing and political delay of the same issues and crisis that nearly collapsed the U.S. dollar in August and September of 2011, that then were pushed beyond the 2012 election, and then pushed again to the just-postponed negotiations of October 2013.

The chances of the United States actually not paying its obligations or interest are nil. Instead, typically a country which issues its debt in the currency it prints, simply prints the cash it needs, when it can no longer can raise adequate funds through what usually become confiscatory tax rates, and when it can no longer sucker the financial markets and its trading partners into funding its spending. That results in inflation, eventual full debasement of the currency, otherwise known as hyperinflation. The purchasing power of the current U.S. dollar will drop effectively to zero.

Therein lies the root of a brewing crisis for the U.S. dollar (all “dollar” references here are to the U.S. dollar unless otherwise specified). Global financial markets have wearied in the extreme of the political nonsense going on in Washington. No one really wants to hold dollars to or hold investments in dollar-denominated assets, such as U.S. Treasury securities.

Due to ongoing solvency issues within the U.S. banking system, that Federal Reserve is locked into a liquidity trap of flooding the system with liquidity, with no resulting surge in the money supply. Yet, the Fed’s quantitative easings have damaged the dollar, which in turn has triggered sporadic inflation from the related boosting of oil prices. The overhang of dollars in the global markets—outside the formal U.S. money supply estimates—is well in excess of \$10 trillion. As those funds are dumped in the global markets, the weakening dollar will trigger dumping of U.S. Treasury securities and general flight from the U.S. currency. As the Fed moves to stabilize the domestic financial system, the early stages of a currency-driven inflation will be overwhelmed by general flight from the dollar, and a resulting surge the domestic money supply. Intensifying the crisis, and likely coincident with heavy flight from the dollar, odds also are high of the loss of the dollar’s global-reserve-currency status.

These circumstances can unfold at anytime, with little or no warning. Irrespective of short-lived gyrations, the dollar should face net, heavy selling pressure in the months ahead from a variety of factors, including, but certainly not limited to: (1) a lack of Fed reversal on QE3; (2) a lack of economic recovery and renewed downturn; (3) concerns of increased quantitative easing by the Fed; (4) inability/refusal of those controlling the government to address the long-range sovereign-solvency issues of the United States; (5) declining confidence in, and mounting scandals involving the U.S. government.

It is the global flight from the dollar—which increasingly should become a domestic flight from the dollar—that should set the early stages of the domestic hyperinflation.

***Approaching the End Game.*** As previously summarized, 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, but that appears to have been more of an intellectual exercise aimed at placating Fed critics, than it was an actual intent to “taper” QE3. The tapering or cessation of QE3 was contingent upon the U.S. economy performing in line with deliberately, overly-optimistic economic projections provided by the Fed.

Manipulated market reactions and verbal and physical interventions have been used to prop stocks and the dollar, and to pummel gold.

Underlying economic reality remains much weaker than Fed projections. As actual economic conditions gain broader recognition, market sentiment even could shift from what now is no imminent end to QE3, to

an expansion of QE3. The markets and the Fed are stuck with underlying economic reality, and, increasingly, they are beginning to recognize same. Business activity remains in continued and deepening trouble, and the Federal Reserve 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.

The same systemic problems will face incoming Fed Chairman Janet Yellin. She will face the same quandaries and issues addressed by current Chairman Ben Bernanke. Where she also has been involved actively in formulating current Fed policies, no significant shifts in Fed policy are likely. QE3 should continue for the foreseeable future.

At the same time, deteriorating expectations for domestic political stability reflect government scandals and conflicting policy actions, 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 at hand.

This still-forming great financial tempest has cleared the horizon; its early ill winds are being felt with increasing force; and 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 to have begun to move beyond the forced patience with U.S. policies that had been induced by the financial terror of the 2008 panic. Again, the dollar faces likely extreme and negative turmoil in the months ahead. A domestic hyperinflationary environment should evolve from something akin to these crises before the end of 2014.

***Still Living with the 2008 Crisis.*** Despite the happy news from headline GDP reporting that the recession ended in 2009 and the economy is full recovery, there never has been an actual recovery following the economic crash 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. Indeed, 2012 household income data from the Census Bureau showed no recovery whatsoever.

What followed the economic crash 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. 552](#)). 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](#) 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 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. As of the government shutdown, the Fed had monetized in excess of 100% of the net issuance of U.S. Treasury debt, since the beginning of calendar-year 2013.

The Fed's unconscionable market manipulations and games playing in fueling speculation over the future of quantitative easing clearly were 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 mounting global banking-system stress.

***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 move sustainably against the U.S. dollar, a movement that may have begun. As discussed earlier, a dollar-selling panic is likely in the next several months, 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

### RETAIL SALES (September 2013)

**September Retail Sales Decline Was Muted by an Upside Revision to Prior Month.** The headline 0.11% decline in September retail sales was near consensus, but the decline was muted by a downside revision to August sales. Further, the headline September contraction likely will deepen in real terms, adjusted for the headline CPI-U inflation, due for release tomorrow (October 30th). Although boosted by higher, seasonally-adjusted gasoline and food prices, the headline nominal retail sales change was dominated by a 2.17% monthly drop in September automobile sales. If accurate, that suggests that unwanted automobile inventories are backing up, based on higher auto production reported yesterday in September industrial production.

As has been the circumstance here during the five-plus years of economic collapse, activity in consumer buying of goods and services was constrained by the intense, structural-liquidity woes besetting the consumer, as discussed in the *Opening Comments*. 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 lacked the ability to fuel the purported post-June 2009 recovery in economic activity that has been reported for the GDP measure.

Otherwise, highly variable and unstable seasonal factors have just continued to cloud activity in the July 2013-to-September 2013 period, and in August 2012-to-September 2012, five months that are published on a non-comparable basis with all the other historical monthly numbers. Although the historical numbers were consistent at the time of the May 31st benchmark revision, five intervening rounds of post-revision concurrent-seasonal adjustments have thrown all the historical 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 and in [Hyperinflation 2012](#) and [Special Commentary \(No. 485\)](#).*

**Nominal (Not-Adjusted-for-Inflation) Retail Sales—September 2013.** Not adjusted for what likely will be an increase in headline September consumer inflation (tomorrow, October 30th), today's (October 29th) report on September 2013 retail sales—issued by the Census Bureau—indicated a statistically-insignificant, seasonally-adjusted monthly contraction of 0.1% (0.11% at the second decimal point, a decline of 0.2% [0.16%] before prior-period revisions) +/- 0.58% (all confidence intervals are at the 95% level). The September increase followed a revised, statistically-insignificant month-to-month gain of 0.20% (previously 0.21%) +/-0.23%.



Year-to-year, September 2013 retail sales slowed to a statistically-significant 3.23% increase +/- 0.82%, versus a revised 4.62% (previously 4.67%) in August. Prior-period revisions, one year ago, reflected little more than the unstable monthly revisions in the concurrent-seasonal-adjustment process, where revised estimates are reported and shown only selectively. Indeed, the pattern of growth here remains distorted by the resulting lack of fully-consistent, seasonally-adjusted numbers being published by the Census Bureau.

**Core Retail Sales.** Seasonally-adjusted monthly grocery-store sales rose by 0.97% in September (suggestive of rising food prices), with gasoline-station sales increasing by 0.04% 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: September 2013 versus August 2013 seasonally-adjusted retail sales series—net of total grocery store and gasoline station revenues—fell by 0.22%, versus the official decline of 0.11%.

Version II: September 2013 versus August 2013 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—fell by 0.29%, versus the official decline of 0.11%.

**Real (Inflation-Adjusted) Retail Sales—September 2013.** September 2013 real retail sales will be detailed in tomorrow’s October 30th *Commentary* covering the release of the September CPI-U consumer inflation measure. As discussed in the *Week Ahead* section, market expectations are in the 0.1% to 0.2% range for the headline gain for the September CPI-U. Whatever is reported will be subtracted from the nominal 0.11% decline to generate the estimate of real growth.

In normal economic times, the recent levels in annual real growth would have been signaling a pending recession, and September 2013 real year-to-year growth should move lower, still. In the current circumstance, this signal likely will serve as an indicator of a renewed downturn in broad economic activity.

## **PRODUCER PRICE INDEX—PPI (September 2013)**

**September PPI Pulled Down by Collapsing Food Prices?** As reported this morning, October 29th, by the Bureau of Labor Statistics (BLS), the regularly-volatile, headline, seasonally-adjusted finished-goods producer price index (PPI) for September 2013 declined by 0.05% (down up by 0.40% unadjusted), versus a monthly gain of 0.30% (up by 0.41% unadjusted) in August. Food prices pulled the aggregate, seasonally-adjusted PPI lower, despite anecdotal evidence to the contrary.

September’s minimal decline in finished goods reflected a seasonally-adjusted 1.02% (0.83% unadjusted) monthly decline in food costs, a seasonally-adjusted gain of 0.47% (a 0.66% unadjusted decline) in energy costs, and a seasonally-adjusted 0.05% increase in month-to-month “core” inflation (net of food and energy), which was an unadjusted 0.11% decline.

Unadjusted and year-to-year, September 2013 total finished-goods PPI inflation eased to 0.31%, from 1.38% in August.

**Core Finished Goods.** “Core” inflation is net of food and energy inflation. The concept of core inflation as a realistic measure of full inflation remains nonsensical, where food and energy account for 41.4% of the weighting of finished goods PPI (24.6% of the CPI-U, 27.6% of the CPI-W).

That said, the core measure still is useful as an indication of how energy prices, in particular, are impacting the broad economy. For September 2013, again, the seasonally-adjusted, month-to-month core PPI was a 0.05% increase (0.11% unadjusted decline). Year-to-year, unadjusted September core finished-goods inflation held at 1.15%, the same as in August. A comparison of core-PPI with core-CPI-U year-to-year growth in September 2013 will be graphed in tomorrow’s October 30th *Commentary* covering the September release of the CPI-U.

**Intermediate and Crude Goods.** Reflecting minimally-changed average oil prices, seasonally-adjusted September 2013 intermediate-goods inflation was up by 0.1%, month-to-month, having been unchanged in August, while September crude-goods gained 0.5% for the month, after declining by 2.7% in August.

Year-to-year inflation in unadjusted September 2013 intermediate goods fell by 0.5%, having gained 0.5% in August. Year-to-year inflation in September 2013 crude goods slowed to a 0.3% gain, from 1.6% increase estimated for August.

**Experimental New Series.** As noted in the prior *Commentary* on the PPI, come the February 2014 reporting of the January 2014 PPI, the series will go through a major overhaul, redefinition and expansion (see the descriptive BLS link: [New PPI](#)). The BLS has just started publishing what the new series and reporting will look like, on an “experimental” basis.

For example, the recently published experimental PPI for last month’s reporting of August 2013 “final demand goods,” was 0.2% for the month, while current “finished goods” estimate published for August was 0.1%.

One of the new features, however, is “final demand services,” which includes trade (change in margins for wholesalers and retailers), transportation and warehousing, among other categories. The new “services” category showed a headline gain of 0.3% for August 2013. As a result, the total final demand (goods, services and construction which are sold for personal consumption, capital investment, U.S. Government, and export [BLS definition]) were up by 0.2% for the month of August, instead of the currently published, official 0.3% and with year-to-year August 2013 inflation at 1.9% instead of the current 1.4%. A comprehensive analysis of the new versus old PPI, including its leading relationship—if any—with the CPI, will be published in a later *Commentary*.



## WEEK AHEAD

**Weaker-Economic and Stronger-Inflation Reporting Likely in the Months Ahead.** See the [schedule](#) for the latest detail on the rescheduling of the delayed September and October economic reporting in the post-government shutdown period. *[Other than elimination of detail of the just-released retail sales and PPI data covered elsewhere in this Commentary, and references added as to “tomorrow,” the Week Ahead section is unchanged from Commentary No. 567 of October 25th.]*

Despite continuing downside adjustments to consensus expectations on the domestic 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 general trend. Inflation likely will be higher than market expectations.

In terms of monthly inflation reporting, energy-inflation-related seasonal-adjustment factors are on the plus-side through the end of the year. That, combined with likely stable or higher oil and gasoline prices, means stronger-than-expected headline CPI and PPI are a good bet for at least the next four months, and beyond. Upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing political instabilities in the Middle East. The dollar faces pummeling from continuing QE3, and the soon-to-resurface fiscal-crisis/debt-ceiling debacle (see opening comments and the *Hyperinflation Outlook* section). Particularly in tandem with the likely weakened dollar, inflation reporting in the year ahead generally should reflect much higher-than-expected inflation (see also [No. 527: Special Commentary](#)).

**A Note on 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.

## PENDING RELEASES:

**Consumer Price Index—CPI (September 2013).** The release by the Bureau of Labor Statistics (BLS) of the August 2013 CPI numbers has been rescheduled for tomorrow, Wednesday, October 30th. The headline CPI is a fair bet to come in around the market consensus of about 0.1% to 0.2%.

Average gasoline prices eased month-to-month in September 2013 by 1.1 percentage point, on a not-seasonally-adjusted basis, per the Department of Energy. The BLS seasonal adjustments, however,

should offset the nominal monthly decline in gasoline prices. As last revised, an unadjusted monthly 2.2% gain in September 2012 gasoline prices was widened to a 4.1% gain, with upside seasonal adjustments. Similar effects in the September 2013 number would push the unadjusted monthly gasoline price contraction to the plus-side, contributing roughly 0.1 percentage point to the aggregate headline CPI-U number. Given likely upside inflation pressures from food prices and core inflation, a small headline gain in September 2013 CPI-U is a reasonable expectation.

Year-to-year, CPI-U inflation would increase or decrease in September 2013 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.52% increase in monthly inflation reported for September 2012. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for September 2013, the difference in September's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the August 2013 annual inflation rate of 1.52%.

For example, if the headline September CPI-U inflation were 0.1%, annual inflation would slow to approximately 1.1%.

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