

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

COMMENTARY NUMBER 570
Economic Review, September CPI, Real Retail Sales and Earnings
October 30, 2013

Real Retail Sales Fell 0.3% Month-to-Month in September
Official Data Indicate Slowing/Stagnating Third-Quarter GDP
CPI-Based Social Security COLA Would Have Been Same With Chained-CPI
September Annual Inflation: 1.2% (CPI-U), 1.0% (CPI-W), 8.8% (ShadowStats)

PLEASE NOTE: The next regular Commentary is scheduled for Thursday, November 7th, covering September median household income and the initial estimate of third-quarter 2013 GDP. A subsequent Commentary on November 8th will cover October employment and unemployment.

Best wishes to all — John Williams

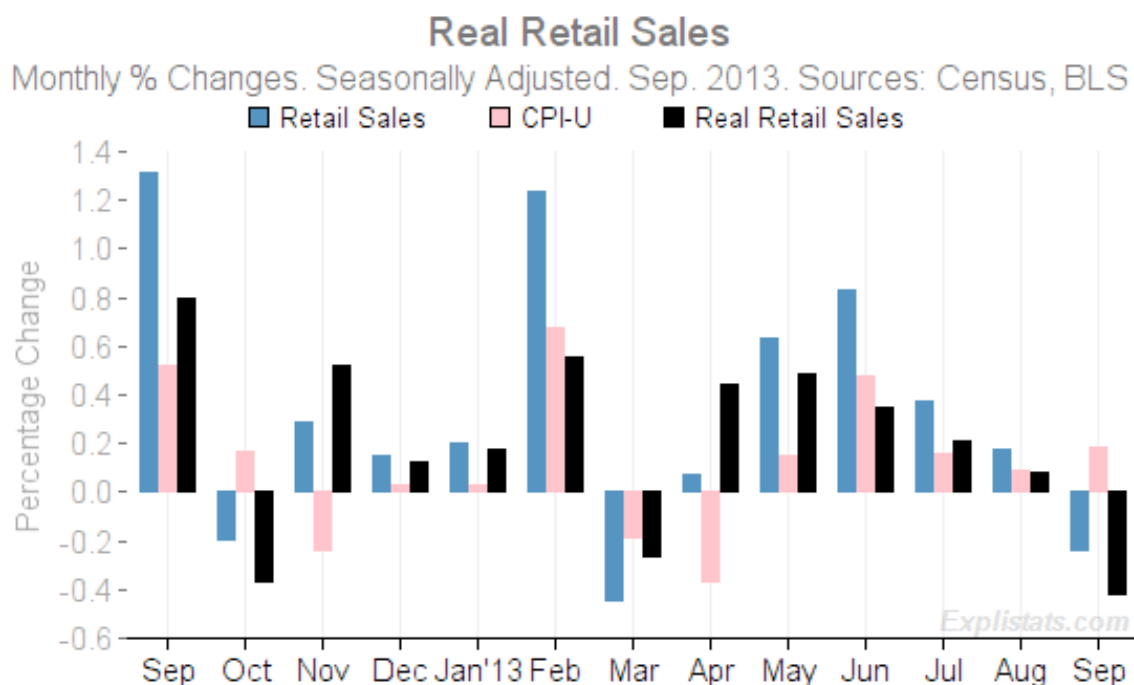
OPENING COMMENTS AND EXECUTIVE SUMMARY

Third-Quarter Data Show Slowing or Stagnant Economic Growth. The big economic reports are in for September, except for the official housing data that have been delayed until the end of November, and except for the initial third-quarter GDP estimate due for release on November 7th. The available numbers overwhelmingly support a sharp slowdown in in third-quarter 2013 GDP growth, from the 2.5% currently

estimated as the headline, annualized quarterly real (inflation-adjusted) growth rate for second-quarter GDP. Eventually, third-quarter GDP growth should reflect an outright quarterly contraction.

Reporting in third-quarter employment and real retail sales showed slowing economic activity on a quarterly basis. With real retail sales corrected for understatement of the CPI-U inflation used in deflating the series, sales contracted on both a quarterly and annual basis (see *Real Retail Sales* section below).

The accompanying graph of official (not-corrected by ShadowStats) real retail sales is courtesy of our affiliate operation www.ExpliStats.com, with further detail found [here](#). See the discussion about ExpliStats in [Commentary No. 566](#).



The graph shows the most recent month-to-month growth in CPI-U inflation-adjusted retail sales. Before inflation adjustment, the nominal headline change in monthly retail sales is reflected in the blue bar. The CPI-U inflation (pink bar) is used for deflation, and the inflation-adjusted real retail sales is shown by the black bar. Real growth is the headline nominal growth minus the headline monthly inflation rate. The 0.3% downturn in headline September real retail sales was part of the slowing sales activity seen in third-quarter 2013, which also should be reflected in slowing GDP growth. Keep in mind that both the September and third-quarter activity here were from the period before the October shutdown in the federal government and any effects from that.

Industrial production data suggested some pick-up in quarterly activity, but that was due to weather-related utility-usage distortions. A better indicator for the production area is real new orders for durable

goods, which actually contracted on a quarterly basis in the third-quarter, both before and after consideration for the volatile commercial-aircraft sector.

Reporting for only the first two of the three months in third-quarter housing starts suggested low-level stagnation in the third-quarter, following a collapse in growth during the second quarter. Somehow, the second-quarter housing downturn did not make it into second-quarter GDP reporting.

Separately, the CPI-U and CPI-W inflation measures spiked sharply on a quarterly basis, in third-quarter 2013, following quarterly contractions in the second-quarter. In theory, the implicit price deflator (IPD), which is the measure of inflation for the GDP, also should spike in the third-quarter. If it does, that would tend to put downside pressure on the real or inflation-adjusted GDP.

In summary, look for third-quarter GDP growth to slow sharply or stagnate, likely below market expectations, and likely—eventually—to reflect an outright quarter-to-quarter contraction in real growth.

Both CPI-W and Chained-CPI Showed Social Security Cost of Living Adjustment for 2013 Inflation at 1.5%. As discussed in the [Public Comment on Inflation](#), an inflation measure to be used for making cost of living adjustments (COLA) to income-related items such as Social Security payments should have a fixed weighting of the goods in the index, and it should reflect out-of-pocket expenses. This is desirable from the standpoint of the income recipient, who usually would like to see his or her income holding at a level that allows at least the maintenance of a constant standard of living.

From the standpoint of the entity making the payment (in this case the federal government), the desired inflation measure has become the weakest one available, so as to minimize payments on Social Security, etc. The lowest reported inflation rates are seen with substitution-based or chain-weighted series, such as the PCE (personal consumption expenditure) deflator and the Chained-CPI-U, where hamburger will be substituted for steak, when steak gets too expensive. With a fixed-weight system, you still get to eat steak. Separately, the introduction of hedonic quality adjustments has eliminated any pretense that the costs of most manufactured products are reflected in the CPI at full out-of-pocket cost or expense.

The CPI-U and CPI-W (the CPI-W is used for Social Security COLA) once were fixed-weight series, but starting in the 1980s and intensified in the 1990s, methodological changes were made so as no longer to reflect out-of-pocket expenses (beginning 1980s) and to move the series towards a substitution basis (1990s). Those changes have reduced headline annual CPI-U inflation by roughly 7.6-percentage points since 1980, from what it would have been otherwise.

Effort to Set a Fully-Substitution Based Inflation Measure as the COLA Adjuster. In the ongoing and repetitive collapses of budget negotiations among those controlling the federal government, one item has survived as common ground: replacing the CPI-W with a Chained-CPI (C-CPI) for COLA adjustments. The deliberate understatement of inflation versus common experience will save billions in Social Security and other payments, based on the assurance the C-CPI would further reduce reported consumer inflation by roughly another 1.0-percentage point per year.

Where COLA currently is based on the average annual CPI-W inflation rate for the third-quarter, a 1.5% annual adjustment was announced today (October 30th) based on 2013 inflation. Yet, the C-CPI also was 1.5% on the same basis. Keep in mind that the only reason for changing the series (as far as the

politicians are concerned) is to lower the reported inflation rate. The problem with the C-CPI is that it goes through two to three years of revisions before its weightings and resultant reduced inflation rates are final. There is no way such an index could be used as COLA, because of the lack of timeliness of the series. Any simplifying assumptions here to make the system workable simply would be a new fraud, built on top of prior fraud.

What the miscreants Washington would do, if they were being at all honest with the public, would be to change the annual COLA calculation to the third-quarter CPI-W annual inflation rate minus one-percent. More will follow here as the circumstance continues to unfold.

CPI-U. The headline, seasonally-adjusted CPI-U for September 2013 rose by 0.2% (0.18% at the second decimal point) month-to-month, and was up by 0.12% unadjusted. That followed a headline monthly gain of 0.1% (0.08% at the second decimal point) in August, which was up by 0.04%, unadjusted.

Encompassed by the headline CPI-U monthly gain of 0.2% (rounded, adjusted and 0.1% unadjusted), aggregate energy inflation in September 2013 was a 0.8% monthly gain (an unadjusted 0.6% contraction). In the other major CPI sectors, food inflation—adjusted and unadjusted—was unchanged for the month, while “core” inflation was up by an adjusted 0.1% (unadjusted 0.2%).

Not seasonally adjusted, September 2013 year-to-year inflation for the CPI-U was 1.18%, down from 1.52% in August. On an annualized basis, seasonally-adjusted third-quarter 2013 CPI-U inflation rose to 2.63%, versus an annualized 0.03% second-quarter contraction, and an annualized 1.44% first-quarter gain.

CPI-W. The September 2013 headline, seasonally-adjusted CPI-W rose month-to-month by 0.18% (up by 0.08% unadjusted), following an adjusted 0.09% gain (up by 0.12% unadjusted) in August.

Unadjusted, September 2013 year-to-year CPI-W inflation was 1.03%, versus 1.45% in August. The COLA based quarterly year-to-year inflation rate was 1.5%.

On an annualized basis, seasonally-adjusted third-quarter 2013 CPI-W inflation rose to 2.98%, versus an annualized 0.37% second-quarter contraction, and an annualized 1.22% first-quarter gain.

Chained-CPI-U. The initial reporting of year-to-year inflation for the September 2013 C-CPI-U was 1.17%, versus 1.42% in August.

Alternate Consumer Inflation Measures. The ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—annual CPI inflation was roughly 4.6% in September, versus 5.0% in August 2013. The ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, eased to about 8.8%, versus 9.2% in August 2013.

Real Retail Sales (After Adjustment for Inflation)—September 2013. Discussed in yesterday’s [Commentary No. 569](#), the headline nominal 0.1% (0.11% at the second decimal point) contraction in September 2013 retail sales was before accounting for rising prices. Based on today’s reporting of the September 2013 CPI-U, seasonally-adjusted headline September real retail sales showed a monthly contraction of 0.3% (0.29% at the second decimal point), versus an unrevised 0.1% (0.12% second decimal point) gain in August.

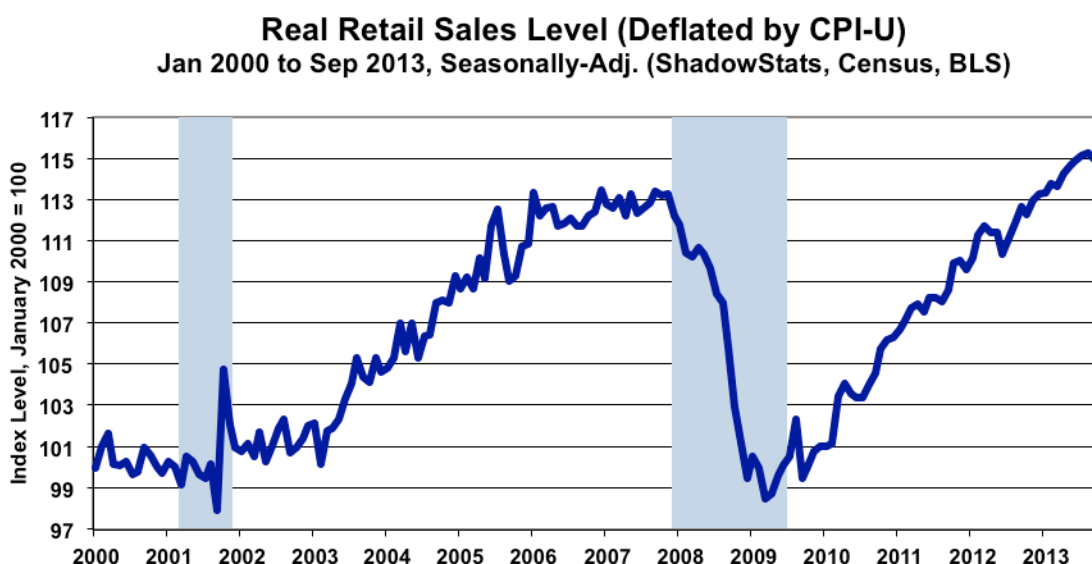
Also as highlighted in [Commentary No. 569](#), and as suggested by the real earnings shown in the next section, sustainable growth in retail sales and personal consumption is not possible without parallel growth in consumer income and liquidity. Inflation-adjusted median household income is not growing. Without the availability of normal debt expansion and with an ongoing lack of willingness for the consumer to spend or to take on new debt, there is no economic recovery in place or pending.

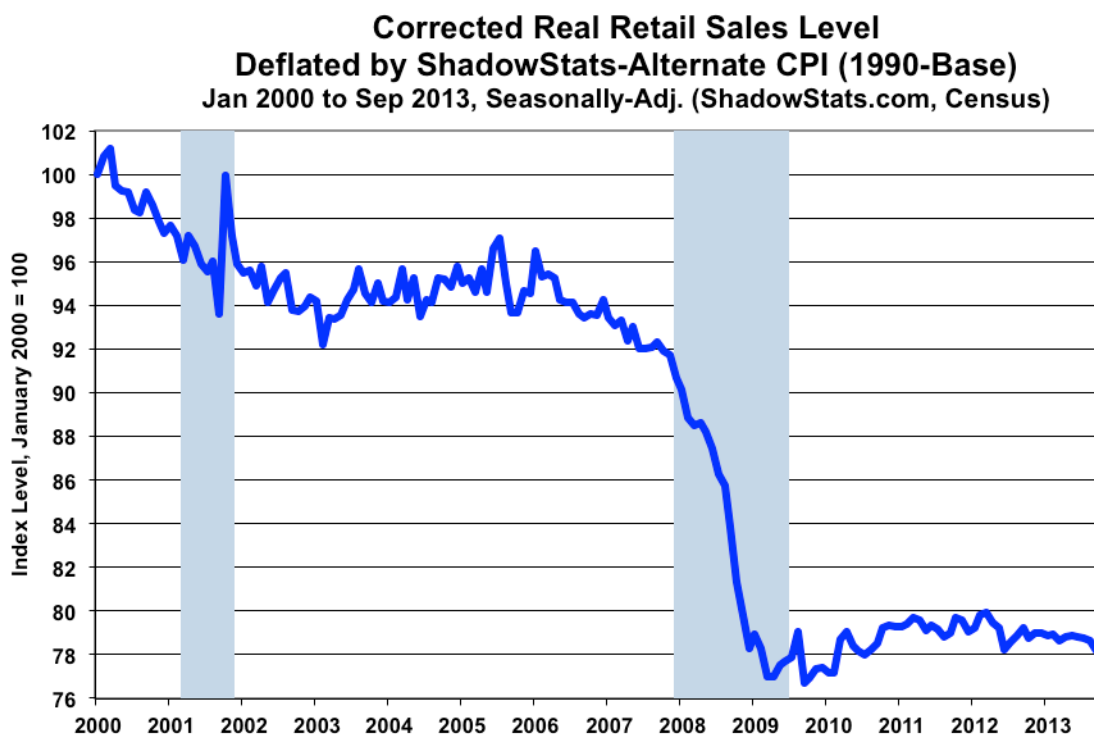
Year-to-year, September 2013 real retail sales rose at an annual pace of 2.03%, versus a revised 3.05% in August, as graphed in the *Reporting Detail* section. In normal economic times, the recent levels in annual real growth would be signaling a pending recession. In the current circumstance, this signal likely is an indicator of a renewed downturn in broad economic activity.

Above Pre-Recession Levels. With the September 2013 reporting, the nascent expansion of headline real retail sales above pre-recession levels, which began in February 2013, has started to pull back, as reflected in the first graph following of the level of indexed real retail sales.

The GDP purportedly expanded beyond pre-recession levels, ten quarters ago, starting in second-quarter 2011, and it has kept rising, well beyond the reported activity of any other series, including real retail sales. There is no other major economic series, however, that shows the GDP's pattern of official, full recovery and extensive new growth. While real retail sales tend to lead GDP activity, the "recovery" in retail sales reporting has lagged the purported GDP recovery by two years.

The apparent "recovery" in the real retail sales series (as well as in the GDP) is due to the understatement of the rate of inflation used in deflating the respective series. As discussed more fully in [Hyperinflation 2012](#) and [Special Commentary \(No. 485\)](#), deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth. The recovery patterns do not hold, however, if the series are corrected for understated inflation.





Corrected Retail Sales. The first graph preceding reflects real retail sales as usually reported by the St. Louis Fed, deflated by the CPI-U, but it is indexed to January 2000 = 100. ShadowStats did the deflation using the September 2013 CPI-U and nominal retail sales releases. The CPI-U, however, understates inflation (see the [Public Comment on Inflation](#)), with the effect of overstating inflation-adjusted growth. Instead of being deflated by the CPI-U, the “corrected” real retail numbers in the second graph use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation.

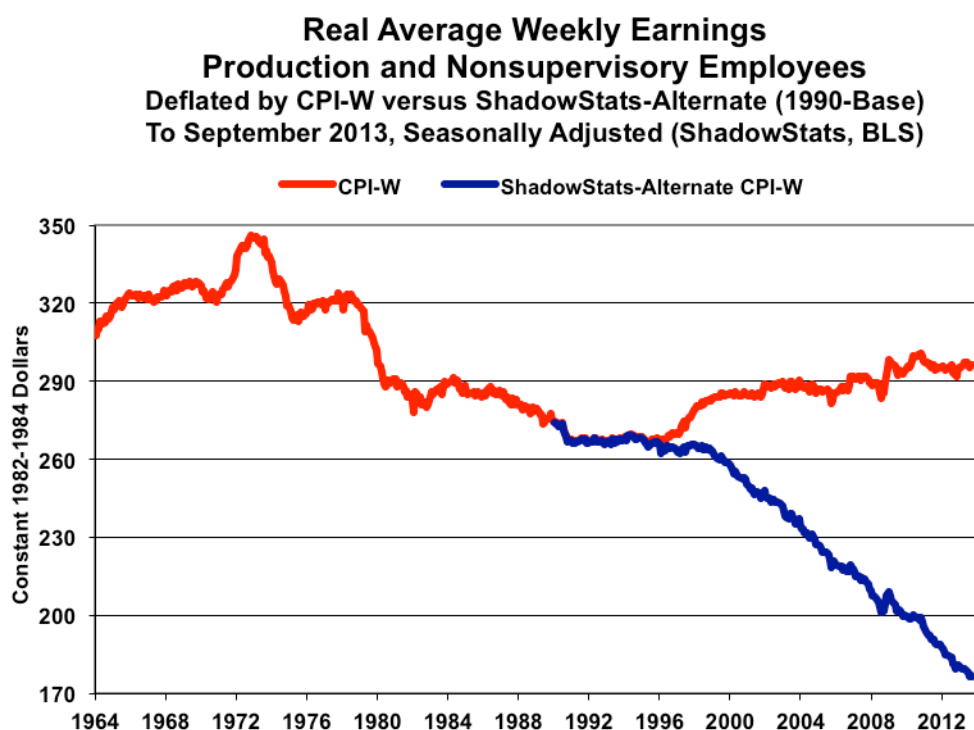
With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation, consistent with patterns seen in real median household income, consumer confidence measures and housing statistics. The recent topping-out reverted to renewed decline in second-quarter 2012 in this series, which had been bottom-bouncing along a low-level plateau of economic activity since the economic collapse from 2006 into 2009. Once again, the renewed contraction is deepening.

Real Average Weekly Earnings—September 2013. For the production and nonsupervisory employees series—the only series for which there is a meaningful history—headline real average weekly earnings (deflated by the CPI-W) were unchanged for the month, following a revised 0.4% (previously 0.1%) gain in August.

Unadjusted and year-to-year, September real earnings rose by 1.2%, versus a revised 1.0% (previously 0.7%) gain. Both the monthly and annual fluctuations in this series are irregular, but current reporting remains well within the normal bounds of instabilities and volatility. The upside revisions to the August detail are due to the instabilities in the BLS monthly surveys.

The accompanying graph of real average weekly earnings shows the earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings.

Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been flat for the last decade. Deflated by the ShadowStats measure, real earnings have been in fairly regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See [Public Commentary on Inflation Measurement](#) for further detail.



*[For further detail on September CPI, real retail sales and earnings,
see the Reporting Detail section.]*

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.

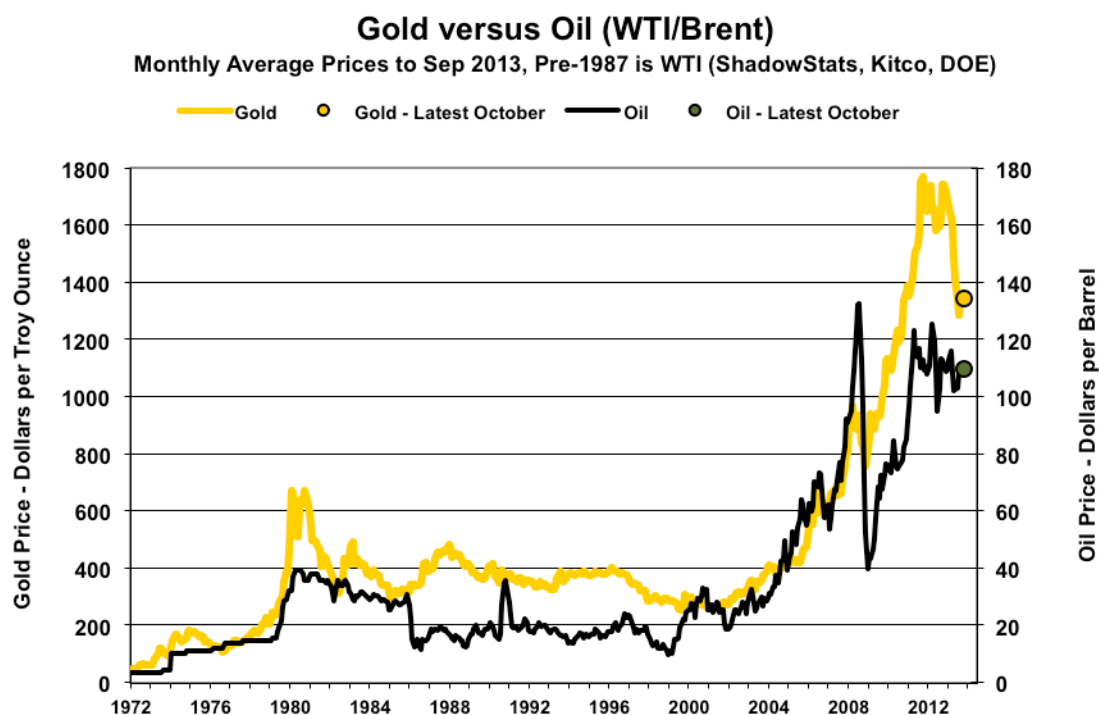
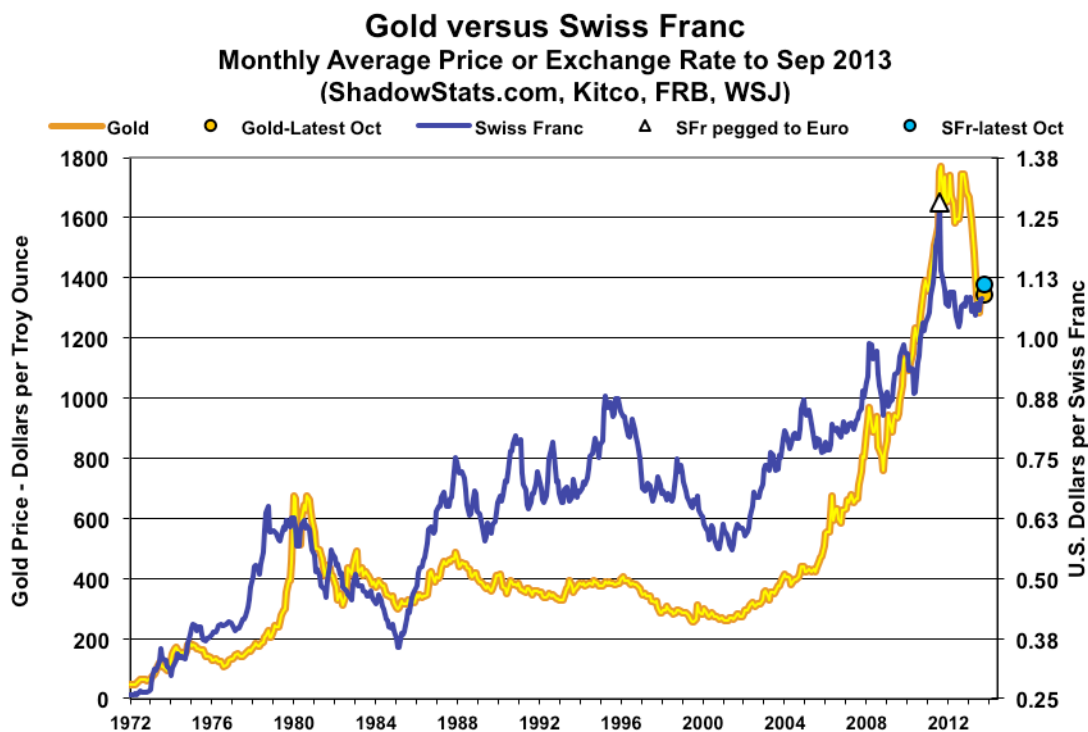
U.S. Dollar Remains Proximal Hyperinflation Trigger. The unfolding fiscal catastrophe, in combination with the Fed's direct monetization of Treasury debt, eventually (more likely sooner rather than later) will

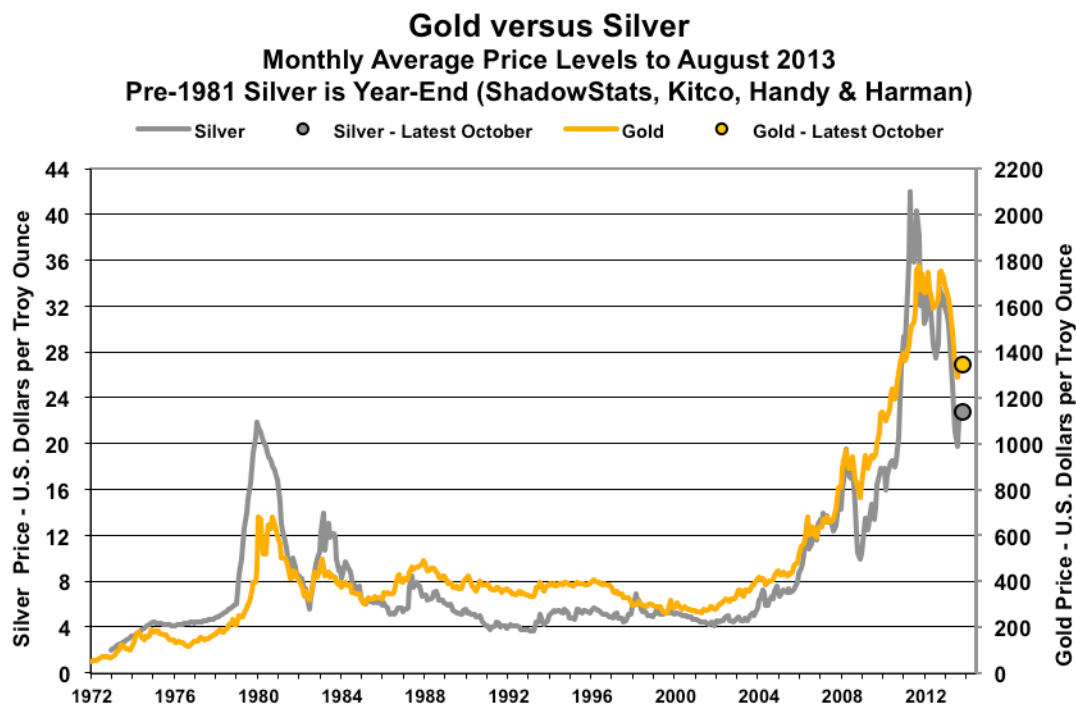
savage the U.S. dollar's exchange rate, boosting oil and gasoline prices, and boosting money supply growth and domestic U.S. inflation. Relative market tranquility has given way to mounting instabilities, and extreme market turmoil likely looms, despite the tactics of delay by the politicians and ongoing 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.

Monthly Gold Graphs. Following are the regular graphs of gold prices versus the Swiss franc, oil prices and silver prices that usually accompany the *Commentary* on the monthly CPI release. Turmoil in the markets has continued, although gold, silver and oil prices have been moving off bottom, and the U.S. dollar is somewhat weaker in the post-October-fiscal-fiasco environment. The underlying fundamentals could not be much weaker for the U.S. dollar, and they could not be stronger for gold and silver. Oil price volatility partially has reflected shifting political instabilities in the Middle East, but oil prices face significant, further upside pressure as the U.S. dollar comes under heavier selling pressure. Domestic fiscal-policy turmoil is likely to remain a poison to the markets, with the U.S. dollar a good bet to be an early casualty. The “latest October” points in the following graphs are late-New York market prices of October 30th, post FOMC. The FOMC statement was a nonevent.





REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (September 2013)

Annualized Third-Quarter CPI-W Inflation Jumped to 3.0%, But Annual-Growth for Social Security COLA Adjustment Purposes Was 1.5% (Same as Chained-CPI). The *Opening Comments* address some of the issues involving cost-of-living adjustments (COLA) for government-related programs such as Social Security. The Chained-CPI, seems to be only item that budget-deficit-cutting negotiators can agree upon. Yet, as currently structured, it is a neither a proper nor a practical series for COLA, as evidenced by today's reporting.

Recent swings in annual inflation largely have reflected swings in annual gasoline inflation, which, in turn, generally have moved with an inverse relationship to U.S. dollar strength, where, for example, a weak U.S. dollar against other currencies puts upside pressure on oil and gasoline prices. Post-2008 bouts of dollar weakness generally have been triggered by the quantitative-easing (also known as dollar-debasement) policies of the Federal Reserve. Oil-related prices also are subject to other pressures, of course, such as political developments in the Middle East. As the U.S. dollar comes under heaving selling pressure, as discussed in the *Summary Hyperinflation Outlook* section, continuing dollar debasement will be reflected initially in rising oil-price-related inflation.

Separately, actual inflation, as the general public views it and expects in COLA, continues to run well above any of the government's rigged price measures. Related methodological changes to the CPI series in recent decades were designed to understate the government's reporting of consumer inflation, as discussed in the [*Public Comment on Inflation Measurement*](#).

Notes on Different Measures of the Consumer Price Index

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

*The **CPI-U (Consumer Price Index for All Urban Consumers)** is the monthly headline inflation number (seasonally adjusted) and is the broadest in its coverage, representing the buying patterns of all urban consumers. Its standard measure is not seasonally adjusted, and it never is revised on that basis except for outright errors.*

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

*The **C-CPI-U (Chain-Weighted CPI-U)** is an experimental measure, where the weighting of components is fully substitution based. It generally shows lower annual inflation rate than the CPI-U and CPI-W. The latter two measures once had fixed weightings—so as to measure the cost of living of maintaining a constant standard of living—but now are quasi-substitution-based. Since it is fully substitution based, the series tends to reflect lower inflation than the other CPI measures. Accordingly, the C-CPI-U is the “new inflation” measure being considered by Congress and the White House as a tool for reducing Social Security cost-of-living adjustments by stealth.*

*The **ShadowStats Alternative CPI-U Measures** are attempts at adjusting reported CPI-U inflation for the impact of methodological change of recent decades designed to move the concept of the CPI away from being a measure of the cost of living needed to maintain a constant standard of living. There are two measures, where the first is based on reporting methodologies in place as of 1980, and the second is based on reporting methodologies in place as of 1990.*

CPI-U. The Bureau of Labor Statistics (BLS) reported this morning, October 30th, that the headline, seasonally-adjusted CPI-U for September 2013 rose by 0.2% (0.18% at the second decimal point) month-to-month, and was up by 0.12% unadjusted. That followed a headline monthly gain of 0.1% (0.08% at the second decimal point) in August, which was up by 0.04%, unadjusted. The headline reporting was near-consensus.

The BLS used a more-severe estimate of falling gasoline-prices in September—a not-seasonally-adjusted drop of 1.3%—instead of the 1.1% decline indicated by the more-comprehensive surveying of the Department of Energy. As a result of positive seasonal adjustments, though, adjusted gasoline prices were up by 0.8%. Seasonal adjustments were neutral for food prices, but they slightly depressed the headline “core” inflation.

Encompassed by the headline CPI-U monthly gain of 0.2% (rounded, adjusted and 0.1% unadjusted), aggregate energy inflation in September 2013 was a 0.8% monthly gain (an unadjusted 0.6% contraction). In the other major CPI sectors, food inflation--adjusted and unadjusted--was unchanged for the month, while “core” inflation was up by an adjusted 0.1% (unadjusted 0.2%).

Not seasonally adjusted, September 2013 year-to-year inflation for the CPI-U was 1.18%, down from 1.52% in August.

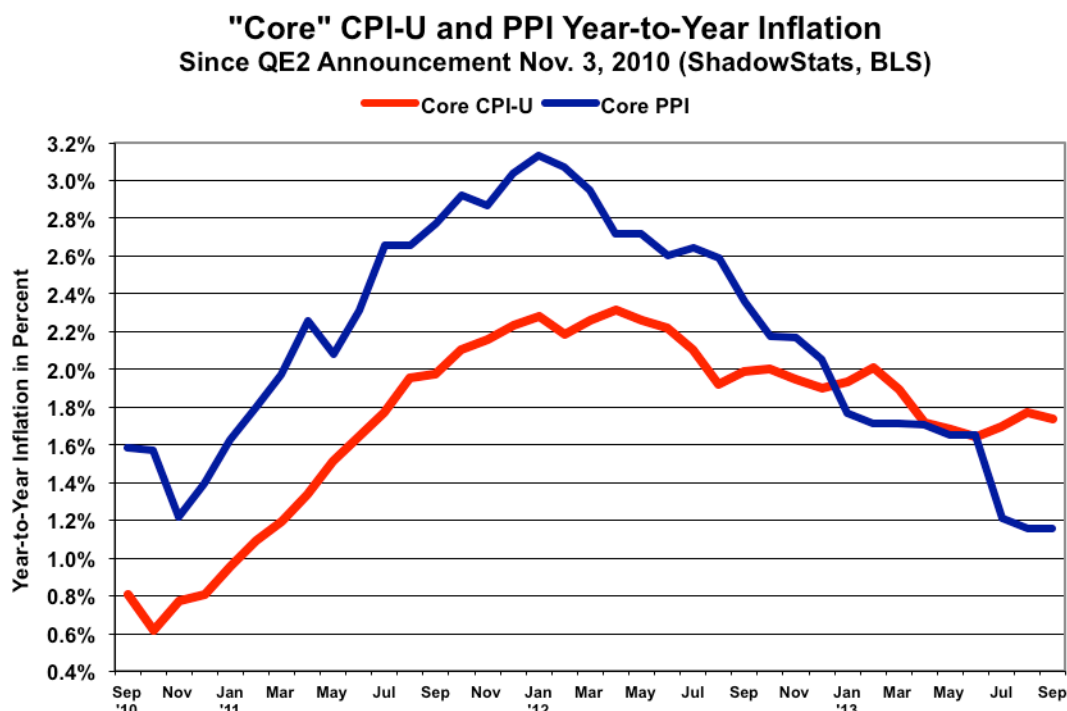
Year-to-year, CPI-U inflation would increase or decrease in next month’s October 2013 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.17% increase in monthly inflation reported for October 2012. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for October 2013, the difference in October’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the September 2013 annual inflation rate of 1.18%.

On an annualized basis, seasonally-adjusted third-quarter 2013 CPI-U inflation rose to 2.63%, versus an annualized 0.03% second-quarter contraction, and an annualized 1.44% first-quarter gain.

Core CPI-U. Seasonally-adjusted September 2013 “core” CPI-U inflation (net of food and energy inflation) rose by 0.12% (by 0.22% unadjusted) month-to-month, versus a 0.13% (0.20% unadjusted) gain in August.

Twenty-three of the last thirty-four months have shown rising year-to-year, or annual, core CPI-U inflation, with the year-to-year core rate easing to 1.73% in September, versus 1.76% in August. The CPI core annual inflation number again remained stronger than that reported for the core-PPI annual inflation rate, which held at 1.15% in September, that same as in August.

The September 2013 CPI-U year-to-year core rate remained well above the core inflation of 0.61%, in November 2010, when Federal Reserve Chairman Bernanke introduced QE2 in a successful bid to debase the U.S. dollar, with the effect of spiking oil prices. The expansion in QE3 into monetization of Treasury debt has helped to fuel sporadic dollar weakness and upside oil-price pressures in recent months. Nonetheless, the core annual inflation numbers in September 2013—for both the CPI-U and PPI—continued to reflect ongoing impact of higher energy prices in the broad economy, as reflected in the accompanying graph.



CPI-W. The September 2013 headline, seasonally-adjusted CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose month-to-month by 0.18% (up by 0.08% unadjusted), following an adjusted 0.09% gain (up by 0.12% unadjusted) in August.

Unadjusted, September 2013 year-to-year CPI-W inflation was 1.03%, versus 1.45% in August.

Based on third-quarter reporting, the cost of living adjustment to Social Security for 2013 inflation will be 1.5%, but that is the same as would have been generated by the current Chained-CPI, which apparently has been selected as a replacement for the CPI-W, where the Chained-CPI should generate lower inflation reporting than the CPI-W. See the *Opening Comments* for a discussion of some of the heavily-politicized considerations here.

On an annualized basis, seasonally-adjusted third-quarter 2013 CPI-W inflation rose to 2.98%, versus an annualized 0.37% second-quarter contraction, and an annualized 1.22% first-quarter gain.

Chained-CPI-U. The initial reporting of year-to-year inflation for the September 2013 C-CPI-U was 1.17%, versus 1.42% in August. Based on third-quarter annual reporting, the cost of living adjustment to Social Security for 2013 inflation would have been 1.5%, the same as generated by the CPI-W. See the *Opening Comments* for a discussion of some of the heavily-politicized considerations here.

Indeed, where the Chained-CPI-U currently is not designed currently as a benchmark cost-of-living indicator, with the series subject to revisions for two years, there likely is movement afoot to restructure the indicator. So as to be useful for purposes of improperly cutting Social Security benefits, the series

will have to be modified, which, by necessity means a degradation of reporting quality. The BLS always can model an adequate amount of inflation that needs to be cut from official reporting. These areas will be discussed further as more detail on pending changes becomes available.

The Chained-CPI-U is the fully substitution-based series that was included in the President's fiscal-2014 budget as a new cost-of-living adjustment factor. Congress also as been pushing for the C-CPI as a way to reduce cost-of-living payments for Social Security, etc., by stealth. This would be an outright fraud on the public, continuing a pattern of similar, earlier successful efforts at deceptive inflation reporting, seen in the past several decades (see the discussion in the *Opening Comments* and the [Public Commentary on Inflation Measurement and Chained-CPI](#)).

The BLS indicates that the C-CPI-U, "is designed to be a closer approximation to a cost-of-living index than other CPI measures. [That is, a fully-substitution as opposed to a fixed-weight basis cost of living measure, where the fixed-weight measures reflect (and substitution-based measures do not reflect) the cost of maintaining a constant standard of living. Again, see the above-linked *Public Commentary*.] The BLS also has posted C-CPI material on its site, apparently in anticipation the new political uses for the measure: [Chained CPI](#).

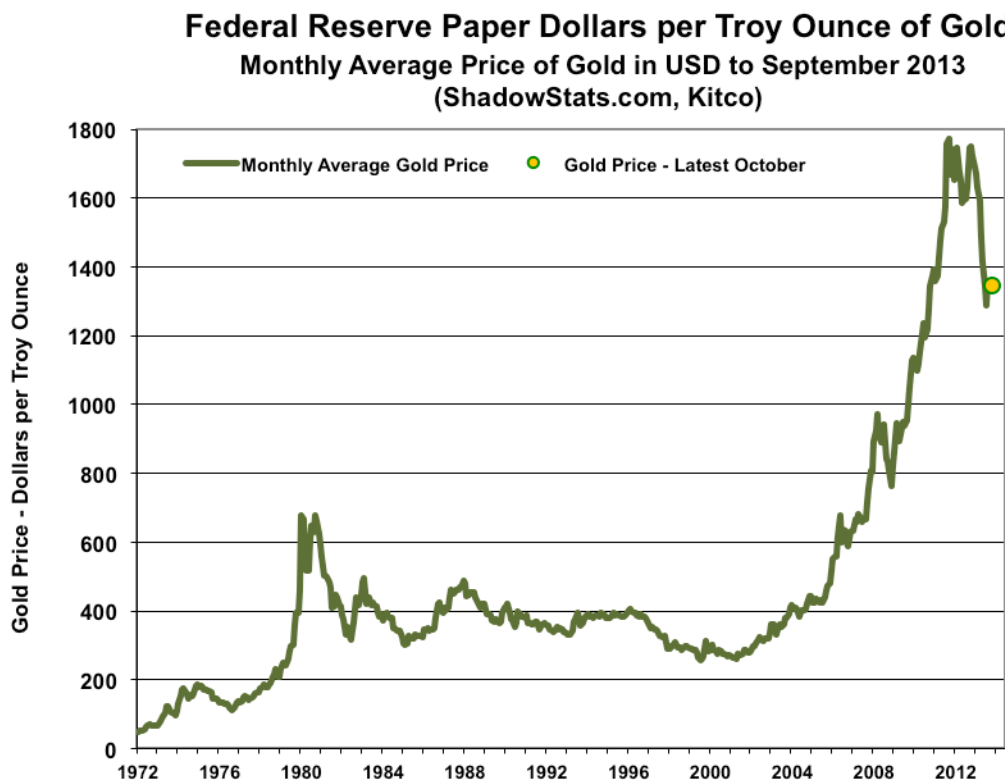
Alternate Consumer Inflation Measures. Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—annual CPI inflation was roughly 4.6% in September, versus 5.0% in August 2013.

The ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, eased to about 8.8% (8.80% for those using the second decimal point), versus 9.2% in August 2013.

[The balance of the text in this Alternate Consumer Inflation Measures sub-section is unchanged from the prior CPI Commentary.]

Note: The ShadowStats-Alternate Consumer Inflation Measure largely has been reverse-engineered from the BLS's CPI-U-RS series, which provides an official estimate of historical inflation, assuming that all current methodologies were in place going back in time. The ShadowStats estimates effectively are adjusted on an additive basis for the cumulative impact on the annual inflation rate of various methodological changes made by the BLS (the series is not recalculated).

Over the decades, the BLS has altered the meaning of the CPI from being a measure of the cost of living needed to maintain a constant standard of living, to something that neither reflects the constant-standard-of-living concept nor measures adequately what most consumers view as out-of-pocket expenditures. Roughly five percentage points of the additive ShadowStats adjustment reflect the BLS's formal estimate of the annual impact of methodological changes; roughly two percentage points reflect changes by the BLS, where ShadowStats has estimated the impact not otherwise published by the BLS. (See [Public Commentary on Inflation Measurement and Chained-CPI](#) for further details.)



Gold and Silver Highs Adjusted for CPI-U/ShadowStats Inflation. Despite the September 5, 2011 historic-high gold price of \$1,895.00 per troy ounce (London afternoon fix), and despite the multi-decade-high silver price of \$48.70 per troy ounce (London fix of April 28, 2011), gold and silver prices have yet to re-hit their 1980 historic levels, adjusted for inflation. The earlier all-time high of \$850.00 (London afternoon fix, per Kitco.com) for gold on January 21, 1980 would be \$2,558 per troy ounce, based on September 2013 CPI-U-adjusted dollars, and \$10,351 per troy ounce, based on September 2013 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (all series not seasonally adjusted).

In like manner, the all-time high nominal price for silver in January 1980 of \$49.45 per troy ounce (London afternoon fix, per silverinstitute.org), although approached in 2011, still has not been hit since 1980, including in terms of inflation-adjusted dollars. Based on September 2013 CPI-U inflation, the 1980 silver-price peak would be \$149 per troy ounce and would be \$602 per troy ounce in terms of September 2013 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

As shown in Table 1 on page 50 of [Hyperinflation 2012](#), and as updated in Table III on page 40 of [Special Commentary \(No. 485\)](#), over the decades, the increases in gold and silver prices have compensated for more than the loss of the purchasing power of the U.S. dollar as reflected by CPI inflation, while they effectively have compensated fully for the loss of purchasing power of the dollar based on the ShadowStats-Alternate Consumer Price Measure (1980-Methodologies Base).

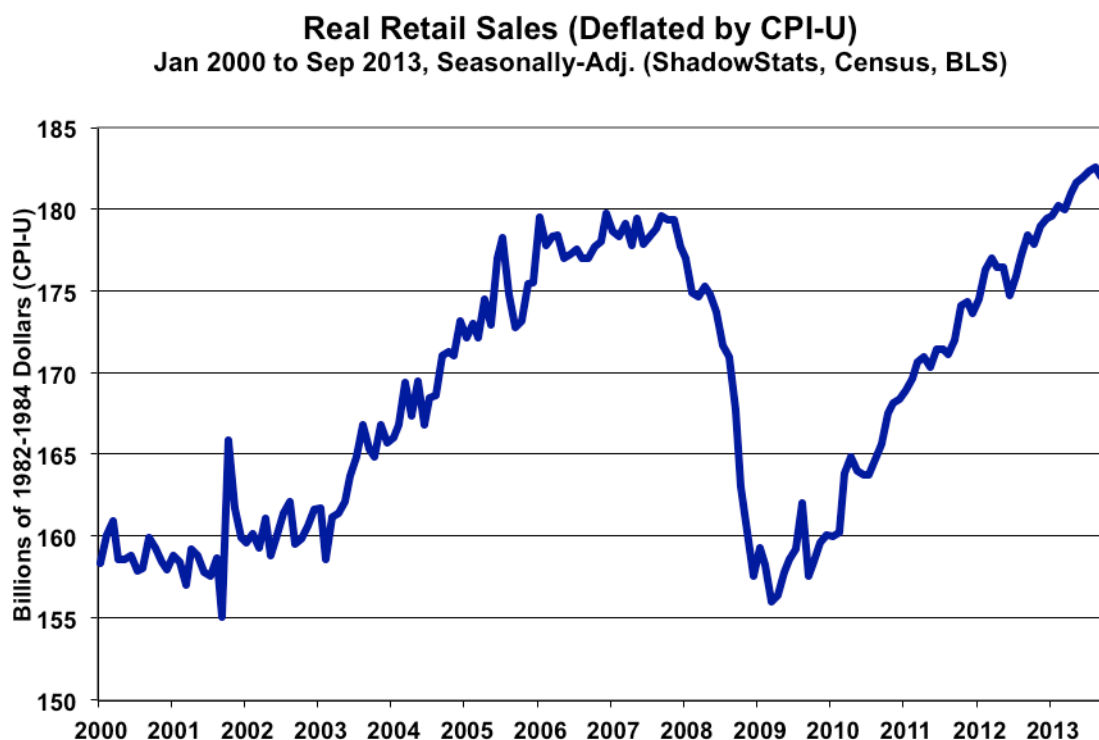
Real (Inflation-Adjusted) Retail Sales—September 2013. The recent pattern of slowing real retail sales is evident in the first graph shown in the *Opening Comments* section.

Discussed in yesterday's (October 29th) [Commentary No. 569](#), the headline nominal (not-adjusted-for inflation) 0.1% (0.11% at the second decimal point) contraction in September 2013 retail sales was before accounting for rising prices. Based on today's (October 30th) reporting of the September 2013 CPI-U, seasonally-adjusted headline real retail sales showed a monthly contraction of 0.3% (0.29% at the second decimal point), versus an unrevised 0.1% (0.12% second decimal point) gain in August.

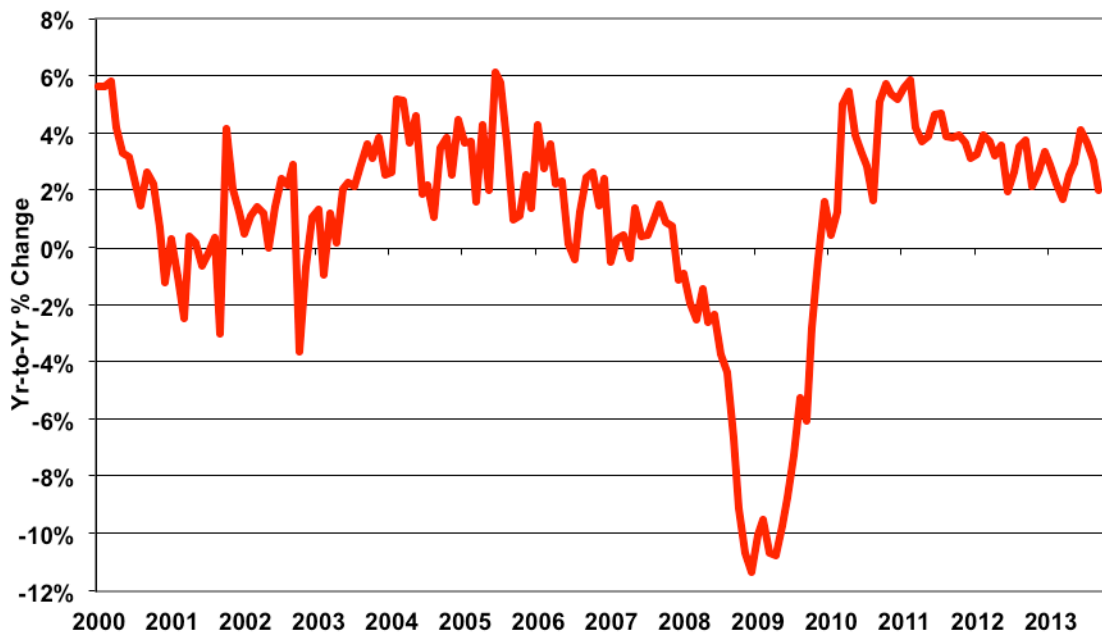
Also as highlighted in [Commentary No. 569](#), and as suggested by the real earnings shown in the next section, sustainable growth in retail sales and personal consumption is not possible without parallel growth in consumer income and liquidity. Inflation-adjusted median household income is not growing, and without the availability of normal debt expansion and with an ongoing lack of willingness for the consumer to spend or to take on new debt, there is no economic recovery in place or pending.

Year-to-year, September 2013 real retail sales rose at an annual pace of 2.03%, versus a revised 3.05% (previously 3.10%) gain in August, as seen in the second graph following. In normal economic times, the recent levels in annual real growth would be signaling a pending recession. In the current circumstance, this signal likely will serve as an indicator of a renewed downturn in broad economic activity.

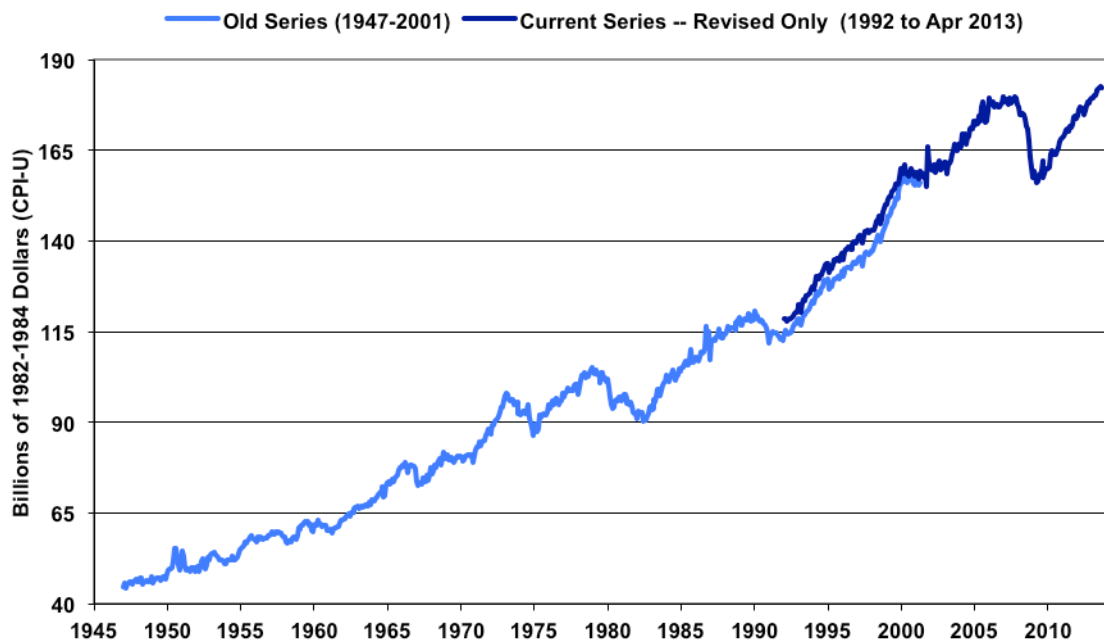
Retail Sales “Recovery” Does Not Confirm Broad Economic Rebound. The first of the three following graphs shows the level of real retail sales activity (deflated by the CPI-U) since 2000, and the second graph shows year-to-year percent change for the same period.



Real Retail Sales Year-to-Year % Change
Jan 2000 to Sep 2013, Seasonally-Adj. (ShadowStats, Census, BLS)



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



The preceding third graph shows the level of real retail sales (and its predecessor series) in full post-World War II detail. With September 2013 reporting, the nascent expansion of headline real retail sales above pre-recession levels, which began in February 2013, has begun to pull back. Monthly real changes generally have been flat, with initial reporting. Yet, with subsequent upside revisions to the prior monthly numbers, the pattern has become one of a tapering pace of upside growth, now turned to the downside.

In reporting through second-quarter 2013 GDP (and most assuredly in the advance estimate of third-quarter 2013 due on November 7th), the gross domestic product (GDP) expanded beyond pre-recession levels, ten quarters ago, starting in second-quarter 2011, and it has kept rising, well beyond the reported activity of any other series, including real retail sales. There is no other major economic series showing the GDP's pattern of official, full recovery and extensive new growth. While real retail sales tend to lead the GDP, the "recovery" in retail reporting has lagged the purported GDP recovery by two years.

The apparent "recovery" in the real retail sales series (as well as in the GDP) is due to the understatement of the rate of inflation used in deflating retail sales and other series. As discussed more fully in [Hyperinflation 2012](#) and [Special Commentary \(No. 485\)](#), deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth.

With the deflation rates corrected for understated inflation, the recent pattern of real sales activity turns increasingly flat-to-negative, as shown in the latest "corrected" real retail sales graph, in the *Opening Comments*. The corrected graph shows that the post-2009 period of protracted stagnation ended, and a period of renewed and deepening contraction began in second-quarter 2012. The corrected real retail sales numbers use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation instead of the CPI-U.

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

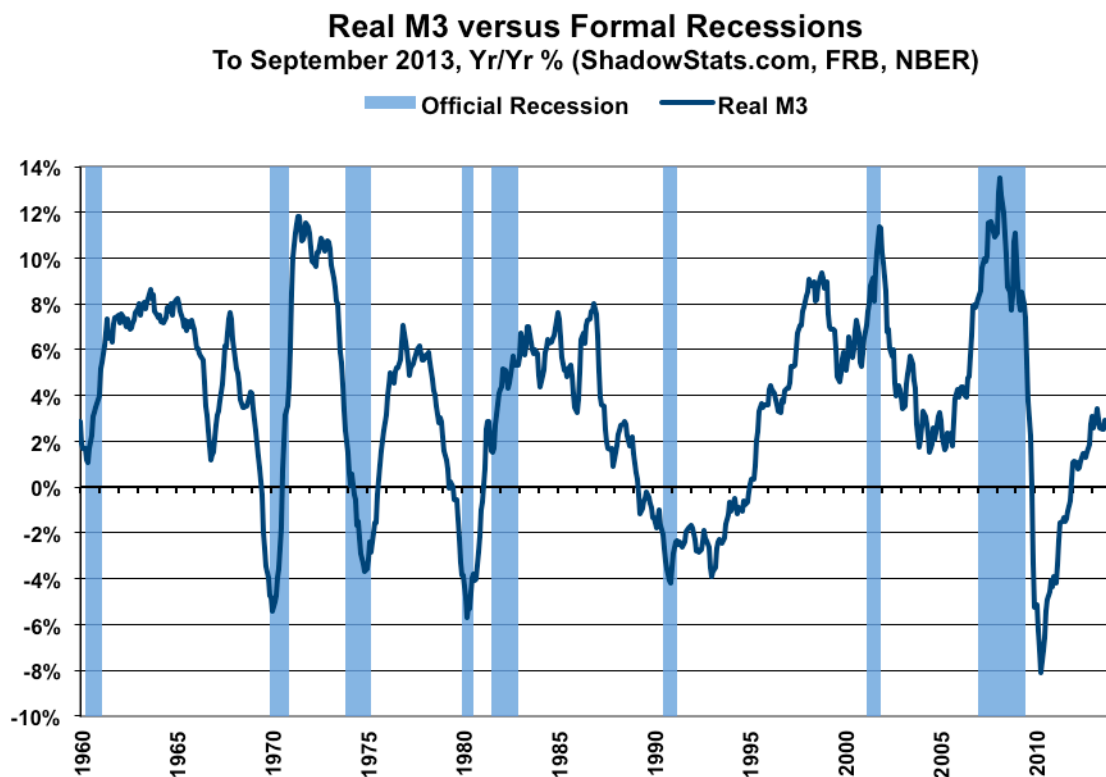
As official consumer inflation resumes its upturn in the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by continued real earnings difficulties, discussed in the next section—these data should trend meaningfully lower, in what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

Real (Inflation-Adjusted) Average Weekly Earnings—September 2013. Coincident with the September 2013 CPI release, the BLS published real average weekly earnings for September 2013. For the production and nonsupervisory employees series—the only series for which there is a meaningful history—headline real average weekly earnings (deflated by the CPI-W) were unchanged for the month, following a revised 0.4% (previously 0.1%) gain in August.

Unadjusted and year-to-year, September real earnings rose by 1.2%, versus a revised 1.0% (previously 0.7%) gain. Both the monthly and annual fluctuations in this series are irregular, but current reporting remains well within the normal bounds of volatility. The upside revisions to the August detail are due to the instabilities in the BLS monthly surveys.

The usual graph of this series is shown in the *Opening Comments* section. As shown there, the graph plots the earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been flat for the last decade. Deflated by the ShadowStats measure, real earnings have been in fairly regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See [Public Commentary on Inflation Measurement](#) for further detail.

Real Money Supply M3 (August 2013). The signal for a double-dip or ongoing recession, based on annual contraction in the real (inflation-adjusted) broad money supply (M3), discussed in [Hyperinflation 2012](#), remains in place and continues, despite real annual M3 growth having turned to the upside. As shown in the accompanying graph—based on September 2013 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for September 2013 increased to 2.9% from a revised 2.5% (previously 2.6%) in August. The September annual growth and the August revision reflected a benchmark revision by the Fed to the underlying money data, but the primary increase in the September number was from a sharp downturn in year-to-year CPI-U inflation.



[The balance of the text in this Real Money Supply M3 sub-section is unchanged from the prior CPI Commentary.] The signal for a downturn or an intensified downturn is generated when annual growth in real M3 first turns negative in a given cycle; the signal is not dependent on the depth of the downturn or its duration. Breaking into positive territory does not generate a meaningful signal one way or the other for the broad economy. The current downturn signal was generated in December 2009, even though there had been no upturn since the economy hit bottom in mid-2009. The broad economy tends to follow in downturn or renewed deterioration roughly six-to-nine months after the signal. Weaknesses in a number of series continued into 2011 and 2012, with significant new softness in recent reporting. Actual post-2009 economic activity has remained at low levels—in protracted stagnation—as discussed in [*Special Commentary \(No. 485\)*](#).

A renewed downturn in official data is becoming more obvious, and that eventually should lead to official recognition of a double-dip recession. Reality remains that the economic collapse into 2009 was followed by a plateau of low-level economic activity—no upturn or recovery, no end to the official 2007 recession—and the unfolding renewed downturn remains nothing more than a continuation and re-intensification of the downturn that began unofficially in 2006.

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 the posting of next week's data releases in Pending Releases, the Week Ahead section is unchanged from Commentary No. 569 of October 29th.]*

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:

Household Income Index (September 2013). The release of the September 2013 index of real median household income index (HII) by www.SentierResearch.com has been scheduled for Thursday, November 7th, reflecting the delayed availability of data from the government as a result of the now-ended suspension of government operations. Where monthly reported data are net of CPI-U inflation, sharp changes in monthly headline inflation can impact the headline HII. Nonetheless, movement outside the current level of monthly stagnation in median income would be a surprise.

Gross Domestic Product (Third-Quarter 2013, First or Advance Estimate). The release of the initial estimate of third-quarter GDP by the Bureau of Economic Analysis (BEA) has been rescheduled to Thursday, November 7th, as a result of the now-ended suspension of government operations. Against the last headline annualized quarterly growth of 2.5%, reported for second-quarter 2013, market expectations are for some slowing of growth to 2.0% or below in the third-quarter. Something below 2.0% is likely, as discussed in the *Opening Comments*.

Employment/Unemployment (October 2013). The release of October 2013 employment and unemployment by the Bureau of Labor Statistics (BLS) has been rescheduled to Friday, November 8th, as a result of the now-ended suspension of government operations. Reflecting impact from slowing trends and partial effects of government furloughs and related private-sector impact, payroll employment likely will be flat; it could be negative. The unemployment should jump about 0.3% above what it would have been otherwise. Detail and forecasts for the special outlook for the October labor conditions were covered in [Commentary No. 567](#), as generally repeated here:

Yes, You Can Be Unemployed and Employed at the Same Time! ShadowStats had indicated that the October shutdown of the federal government likely would spike the October unemployment rate and shrink nonfarm payrolls (see [Commentary No. 564](#) and [Commentary No. 566](#)). The reopened Bureau of Labor Statistics (BLS) has offered some guidance as to how the once-furloughed federal employees will be handled in the labor statistics.

The furloughed workers, who were out of work for the full reference week ended October 12th, would be counted as unemployed, on temporary lay-off, as part of the household survey. That should add about

0.3-percentage point to whatever the headline (U.3) October unemployment rate would have been otherwise.

Anyone who was employed at any time during the payroll period that included October 12th is counted as employed in the payroll survey. Some two-week payrolls and certainly monthly payrolls would cover some of the furloughed employees. Separately, though, since the government (after the fact) determined that the furloughed employees would be paid, the BLS has decided to include the furloughed among the employed.

None of this applies to government contract workers, or to those who lost their jobs as a secondary effect, such as private restaurant employees at a National Park. Accordingly, the payroll impact is not as clear-cut as the household survey. Nonetheless, with the BLS trend model geared to generate only a 67,000 jobs gain in October—exclusive of any government shutdown considerations—the headline jobs number still has a solid chance of reflecting a net monthly jobs loss. If there is a headline contraction, the popular media likely still will blame the furloughs, irrespective of what has been happening in a rapidly-slowing real-world economy.
