John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 574
October CPI, Retail Sales, Real Retail Sales and Earnings, Existing Home Sales

November 20, 2013

Watch Out for the Dollar

October Annual Inflation: 1.0% (CPI-U), 0.8% (CPI-W), 8.5% (ShadowStats)

Retail Sales Gain Was Statistically Insignificant; Recession Signal Remained Intact

Official Real Earnings Declined in October

Existing Home Sales Declined for the Month; Annual Growth Slowed Markedly

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PLEASE NOTE: The next regular Commentary *is scheduled for tomorrow, Thursday, November 21st, covering the October PPI, and a new leading economic indicator in the context of an economic review.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Business Conditions Deteriorate, While Dollar-Negative Stories Begin to Surface. The general outlook for business conditions has not changed, with current reporting just moving the detail further into a pattern of renewed economic slowdown. Given the amount of new material released and analyzed

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today (November 20th), the summary of October 2013 economic reporting—in the context of the broad economic outlook—will be included in tomorrow's *Commentary No. 575.* Discussed there also will be the introduction of a new leading indicator of economic activity, as well as a review of the latest traditional indicators. The new indicator signals an imminent "new" recession, while the latest traditional measures confirm the lack of a post-2009 economic recovery and the continuing deterioration of the general economic outlook.

Beyond the negative implications of a deteriorating economy for the U.S. dollar, political and central-bank issues rapidly are turning against the U.S. currency, upping the risk for a major sell-off of the dollar in the foreign exchange markets in the near term. Stories getting headlines in the popular press of the last couple of days have included the potential of the Fed moving to increase quantitative easing (not tapering), and of budget deficit negotiations at an impasse, with no efforts at resolution likely in the near future. In combination with the deteriorating political conditions in Washington, either of these stories could pummel the dollar, if they gain credence. In turn, as the U.S. dollar comes under heavy selling pressure—discussed in the *Summary Hyperinflation Outlook* section—dollar weakness rapidly should translate into rising oil-prices and related, new consumer inflation.

Sampling Distortions from Government Shutdown Could Have Impacted Headline CPI and Other Reporting. Unlike the Census Bureau with its retail sales reporting, the Bureau of Labor Statistics (BLS) discussed some impact of the government shutdown on October CPI reporting in today's November 20th press release:

"As a result of the partial federal government shutdown, all CPI staff were furloughed from October 1, 2013 through October 16, 2013. Data collection, data review and index computation commenced shortly after the end of the shutdown. In order to minimize the impact of the shutdown on the quality and timeliness of the index, resources normally devoted to maintenance and improvement work were redirected into data collection and index production. The sample of prices used to calculate the October index was about 75 percent of the amount usually used in the CPI."

The reduced sampling—particularly if it involved unsurveyed, rapidly changing prices throughout the month—could have distorted the October CPI reporting, either way. If so, differences should be caught up in the November CPI estimate.

Structural Consumer-Liquidity Issues Are Preventing Housing and Full-Economic Recoveries. Without growth in real income, without the ability or the will to expand debt meaningfully, the consumer has not been able to support the purported, full-fledged economic recovery, and no recovery is pending in the immediate future. These circumstances are constraining consumer consumption, as generally reflected in retail sales and in the housing market. See *Commentary No. 571* and *Commentary No. 572* for recent detail and discussion in this area, as well as the comments on real earnings in this and the *Reporting Detail* sections.

Consumer Price Index—October 2013. Volatility in oil and gasoline prices continued to dominate the monthly and annual swings in consumer inflation, as seen in October. Yet, energy inflation increasingly should be seen driving the consumer inflation indicators higher, as the U.S. dollar comes under heavy selling pressure.

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CPI-U. The headline, seasonally-adjusted CPI-U for October 2013 declined by 0.1% (0.06% at the second decimal point) month-to-month, and was down by 0.26% unadjusted. That followed a headline monthly gain of 0.2% (0.18% at the second decimal point), which was up by 0.12%, unadjusted, in September. The headline October reporting was below market consensus.

Encompassed in the rounded, headline October CPI-U decline of 0.1% (down by 0.3% unadjusted), aggregate energy inflation in was down by 1.7% for the month (an unadjusted 4.0% contraction). In the other major CPI sectors, food inflation—adjusted and unadjusted—was up by 0.1% for the month, while "core" inflation was up by an adjusted 0.1% (unadjusted 0.2%).

Not seasonally adjusted, October 2013 year-to-year inflation for the CPI-U was 0.96%, down from 1.18% in September.

CPI-W. The headline, seasonally-adjusted October CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, contracted month-to-month by 0.11% (down by 0.35% unadjusted), following a September gain of 0.18% (up by 0.08% unadjusted). Unadjusted, October 2013 year-to-year CPI-W inflation was 0.77%, versus 1.03% in September.

Chained-CPI-U. The initial reporting of year-to-year inflation for the October 2013 C-CPI-U was 0.95%, versus 1.17% in September, numbers for both months that were exceptionally close to the CPI-U annual estimates. The problem for the reporting of the purportedly lower, substitution-based inflation is that the category weightings that generate the full-percentage-point reduction in headline inflation are not available for a year or more.

Alternate Consumer Inflation Measures. The ShadowStats-Alternate Consumer Inflation Measure (1990-Base) was roughly 4.4% year-to-year in October 2013, versus 4.6% in September. The ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, eased to about 8.5%, from 8.8% in September.

Real Average Weekly Earnings—October 2013. For the production and nonsupervisory employees series—the only weekly earnings series from the BLS with a meaningful history—headline real average weekly earnings (deflated by the CPI-W) fell by 0.1% for the month, following an unrevised unchanged monthly reading in September.

Unadjusted and year-to-year, October real earnings rose by 1.4%, versus a revised 1.4% (previously 1.2%) gain in September. 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 September 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

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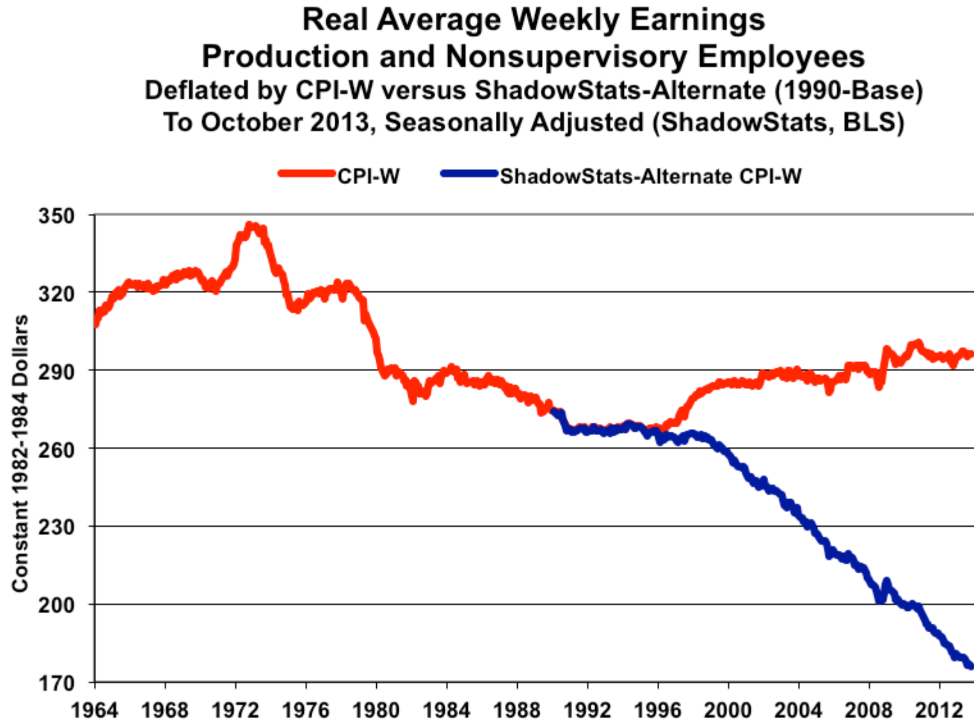
in fairly regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See *Public Commentary on Inflation Measurement* for further detail.



Retail Sales—October 2013. Constrained by intense, structural-liquidity woes, 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. That said, October 2013 retail sales rose by a statistically-insignificant 0.41% for the month. Adjusted for a small decline in the headline CPI-U, that translated into a monthly gain of 0.47% for October real retail sales. Although those gains were above expectations, again, they were not meaningful, and they did not alter the basic outlook or traditional recession signals.

Nominal (Not-Adjusted-for-Inflation) Retail Sales. The headline growth in October 2013 retail sales was a statistically-insignificant, seasonally-adjusted monthly increase of 0.4% (0.41% at the second decimal point). The October increase followed a revised, statistically-insignificant month-to-month gain of 0.03%. Year-to-year, October 2013 retail sales gained a statistically-significant 3.88%, versus a revised 3.35% annual gain.

Real (Inflation-Adjusted) Retail Sales. The headline 0.41% nominal gain in monthly October retail sales was before accounting for inflation. Based on the 0.06% monthly decline in the October 2013 CPI-U, seasonally-adjusted real retail sales showed a monthly gain of 0.47%, versus a revised 0.18% monthly contraction in September.

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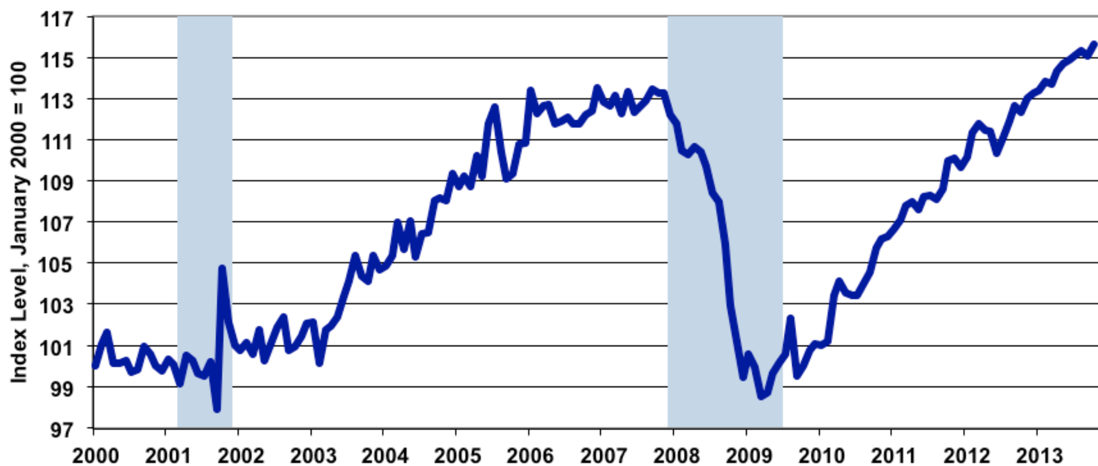
Year-to-year, October 2013 real retail sales rose at an annual pace of 2.91%, versus a revised 2.15% gain in September. In normal economic times, the recent levels in annual real growth would be signaling a pending recession. In the current circumstance, this signal likely will serve as an indicator of a renewed downturn in broad economic activity. See the graphs in the *Reporting Detail* section

Above Pre-Recession Levels. With the October 2013 reporting, the nascent expansion of headline real retail sales above pre-recession levels, which began in February 2013 and faltered in September, resumed again in October, as reflected in the first graph following of the level of indexed real retail sales.

The GDP purportedly expanded beyond pre-recession levels, eleven 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 headline 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 following 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 October 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.



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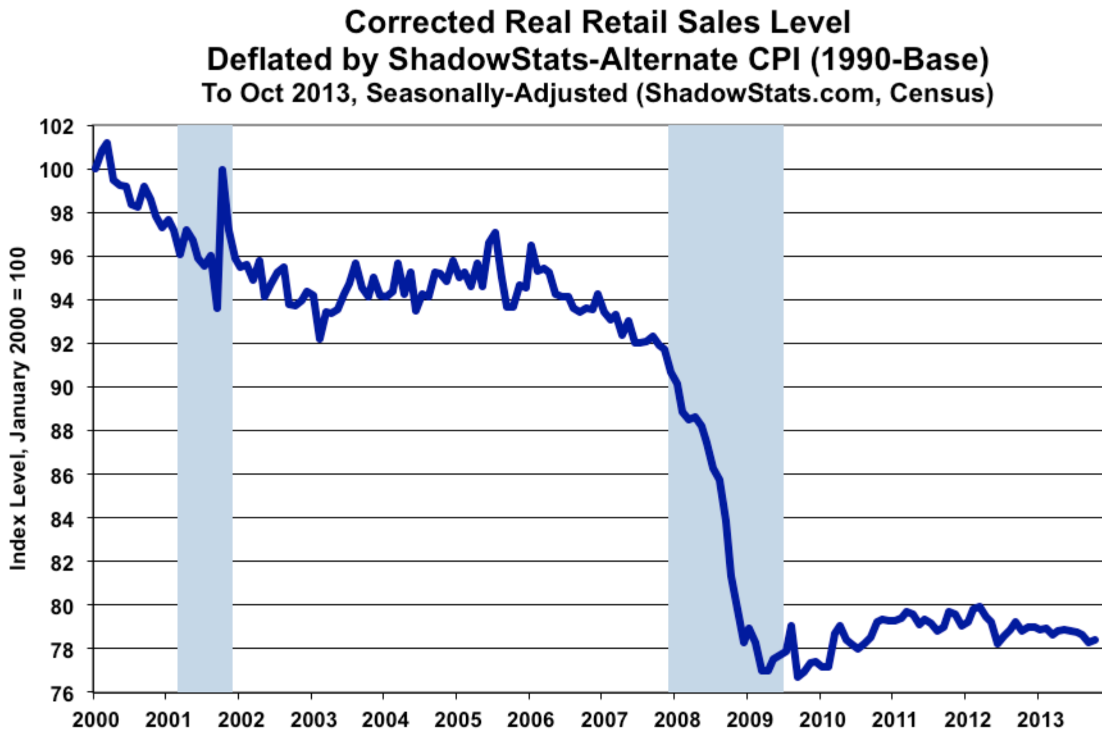


With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation, consistent with patterns seen in real median household income, consumer confidence measures, unemployment and housing statistics. The recent topping-out reverted to renewed decline in second-quarter 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, even allowing for a minor uptick in the October sales number.

Existing Home Sales—October 2013. Reflecting mounting liquidity stresses on the consumer, month-to-month activity dropped sharply in new-home sales, with annual growth slowing markedly. These numbers have to be viewed in the context of the high volatility and the questionable quality of the series, but the latest trend is consistent with consumer liquidity pressures, and it likely will be mirrored somewhat in the still-pending releases of September and October housing starts and new-home sales.

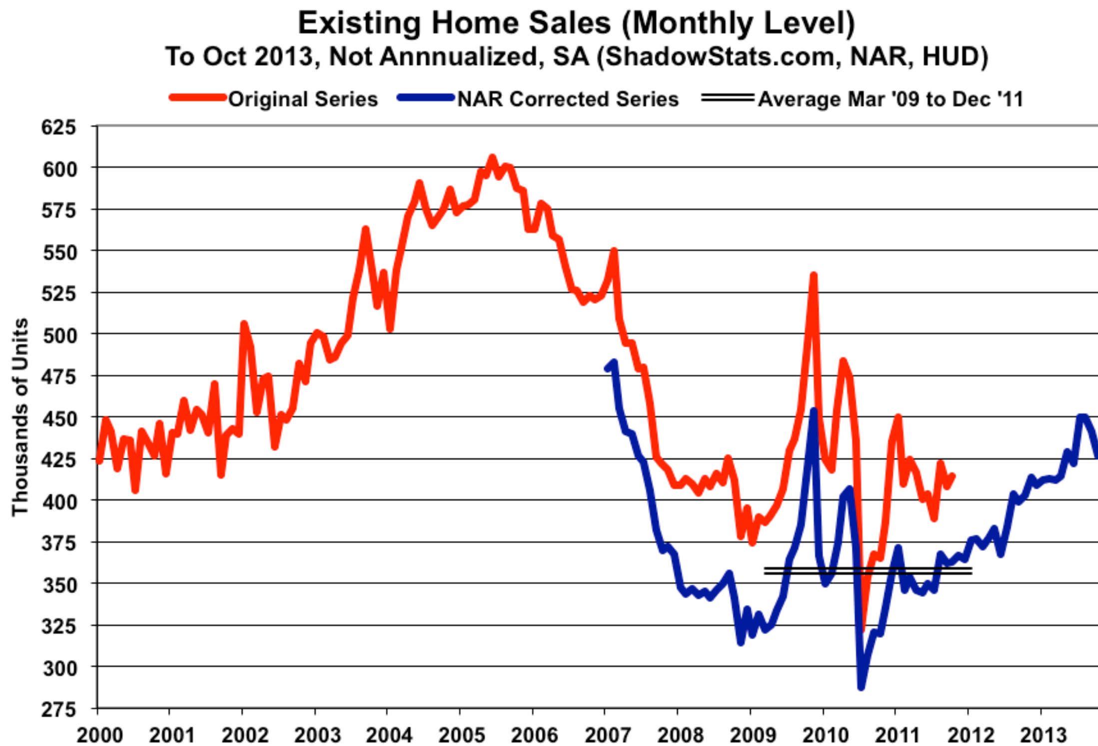
October 2013 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly decline of 3.2%, versus an unrevised 1.9% contraction in September and an "unchanged" reading in August.

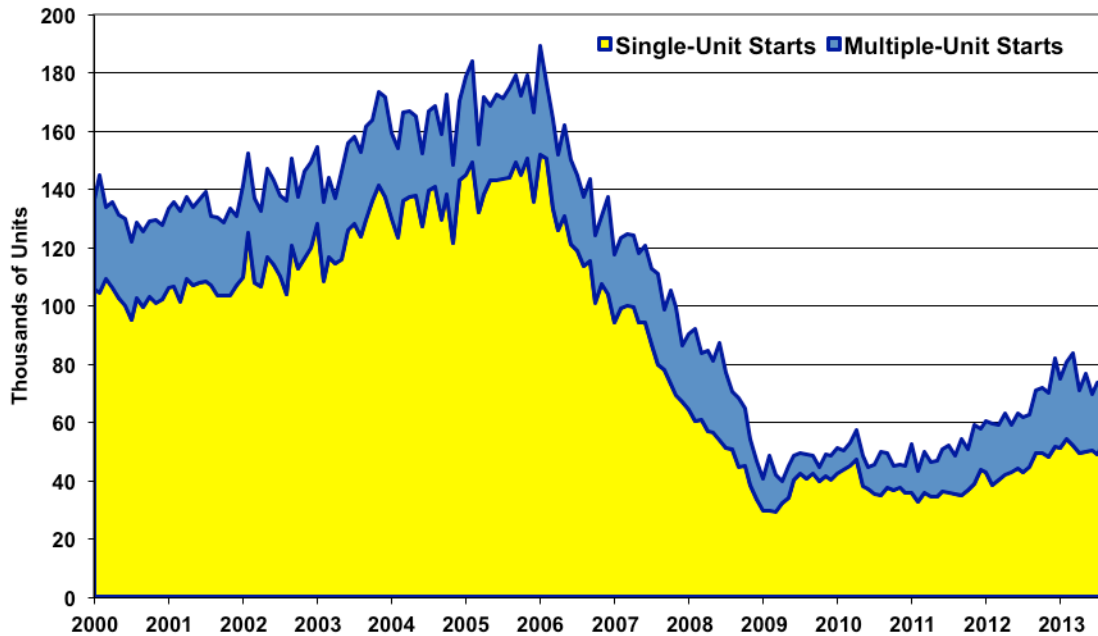
On a year-to-year basis, October 2013 annual sales growth slowed to 6.0%—down from its recent peak of 17.2% in July 2013 and at the slowest pace since June 2012. The October annual growth rate was down

from 10.7% in September and 11.4% in August. October' activity remained 29.6% below the June 2005 pre-recession high for the series.

Again, given questions of the reliability of the numbers, particularly the quality of, and the volatility, instabilities and uncertainties in the reporting of existing-home sales, not too much should be read into the reported trends. The September and October data will be reviewed in the context of new home sales and residential construction, when those series are published, catching up from the government shutdown. September and October housing starts are scheduled for release on November 26th; September and October new-home sales are scheduled for December 4th. A graph of the most recently-published housing starts detail (August 2013, from *Commentary No. 558*) is included here, with the existing-home sales graph, for purposes of comparison.

Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that had turned to a faltering uptrend and now what could be the beginning of renewed decline, as suggested by the accompanying graph.





Consumer and Banking-Industry Liquidity Problems. Again, there have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or broad economic recovery. The NAR estimated the portion of total sales in "distressed" properties at 14% in October (9% foreclosures, 5% short sales), unchanged from September.

Reflecting ongoing lending problems, related banking-industry and consumer solvency issues, and the continuing influx of speculative investment money into the existing housing market, the NAR also estimated that all-cash sales in October were at 31% of the total, down from 33% in September, but up from 29% in October 2012.

[For further detail on October CPI, retail sales and existing home sales, see the **Reporting Detail** ***section.]***

HYPERINFLATION WATCH

Summary Hyperinflation Outlook—Unchanged. The *Hyperinflation Outlook* of *Commentary No. 567* is repeated here without change. Detail on the pending publication of *Hyperinflation 2014—The End Game*, which will be a fully-updated version of *Hyperinflation 2012,* also was discussed in *Commentary No. 567*.

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 uncontainable 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-festering 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

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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.

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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. The underlying fundamentals could not be much weaker for the U.S. dollar, and they could not be stronger for gold and silver, despite recent price movements. Oil price volatility partially has reflected shifting political instabilities in the Middle East, but oil prices face significant, further upside pressure when the U.S. dollar comes under heavier selling pressure. The inability of the those controlling the U.S. government to address the Nation's long-term sovereign solvency issues, combined with hints of possible expanded easing by the Fed, should be a poison to the markets, with the U.S. dollar a good bet to be an early casualty. The "latest November" points in the following graphs are late-New York market prices of November 20th.

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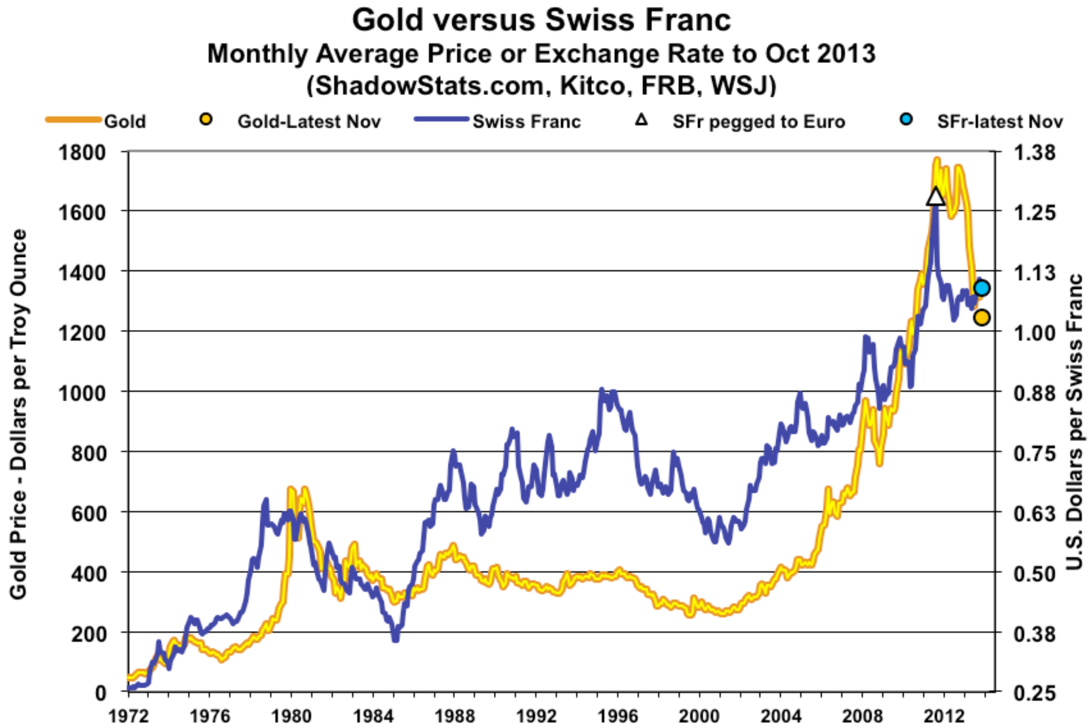
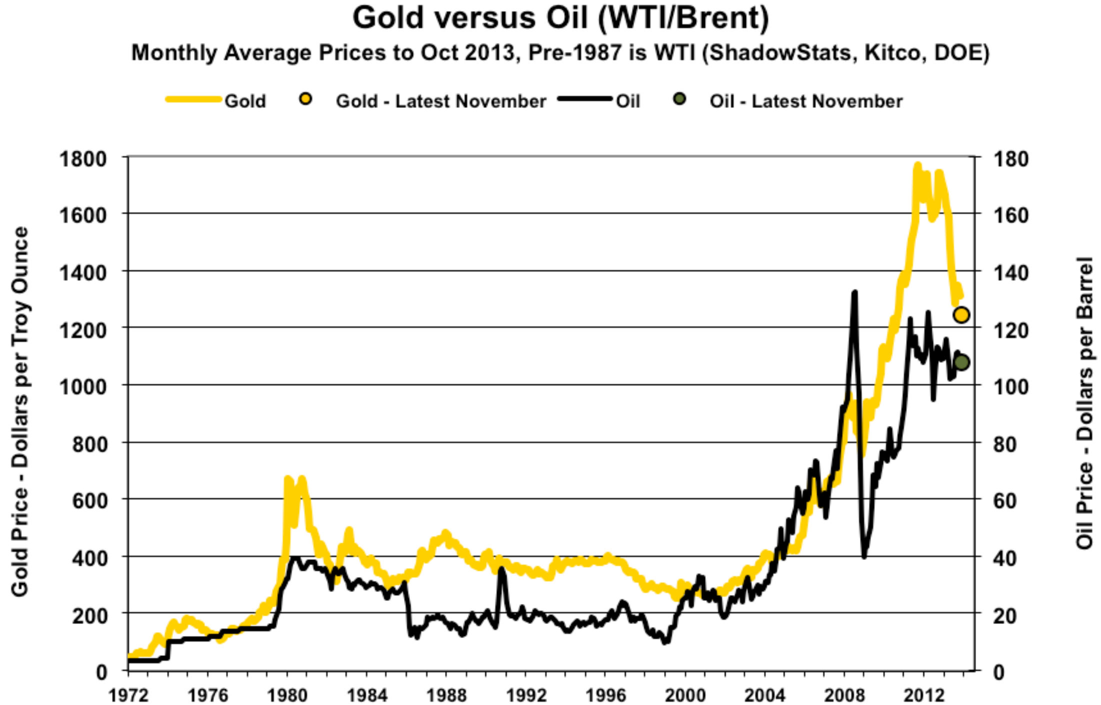

Gold versus Swiss Franc
Monthly Average Price or Exchange Rate to Oct 2013
(ShadowStats.com, Kitco, FRB, WSJ)
Gold
Gold-Latest Nov
Swiss Franc
SFr pegged to Euro
SFr-latest Nov
Gold Price - Dollars per Troy Ounce
U.S. Dollars per Swiss Franc
1800
1600
1400
1200
1000
800
600
400
200
0
1.38
1.25
1.13
1.00
0.88
0.75
0.63
0.50
0.38
0.25
1972
1976
1980
1984
1988
1992
1996
2000
2004
2008
2012


Gold versus Oil (WTI/Brent)
Monthly Average Prices to Oct 2013, Pre-1987 is WTI (ShadowStats, Kitco, DOE)
Gold
Gold - Latest November
Oil
Oil - Latest November
Gold Price - Dollars per Troy Ounce
Oil Price - Dollars per Barrel
1800
1600
1400
1200
1000
800
600
400
200
0
180
160
140
120
100
80
60
40
20
0
1972
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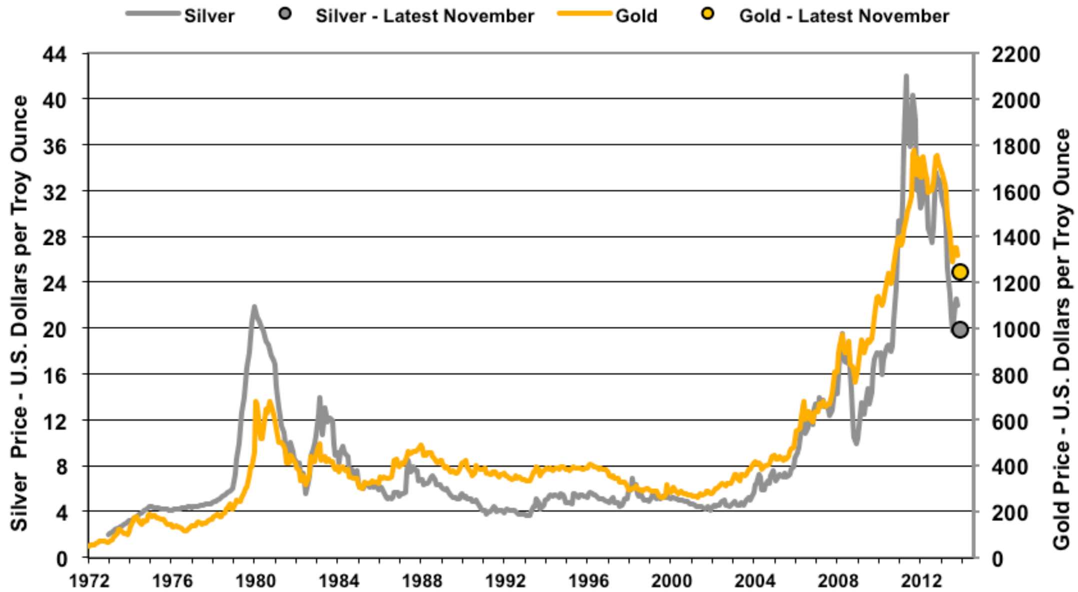

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REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (October 2013)

Volatility in oil and gasoline prices continued to dominate the monthly and annual swings in consumer inflation, as seen in October, and energy inflation increasingly should be seen driving the consumer inflation indices higher. The movement in energy prices generally has been 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.

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The U.S. dollar recently has seen some minimal selling pressure. That pressure likely will intensify sharply in the near future, however, where stories are beginning to surface of the need for the Fed to intensify quantitative easing. Separately, the chances of any meaningful deal to address the federal fiscal imbalances in the near future have been and remain nil. Yet, again, stories are being floated that no meaningful deal will be reached or even fought over before the 2014 election. Combine those shifting sentiments with the ongoing deteriorating political environment in Washington, and circumstances are set for a rapidly intensifying sell-off of the U.S. dollar. In turn, as the U.S. dollar comes under heavy selling pressure—discussed in the *Summary Hyperinflation Outlook* section—the weakening U.S. currency rapidly should be translated into rising oil-price-related inflation.

As a separate issue, inflation—as generally viewed by the public from the standpoint of personal income or investment use—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*.

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Notes on Different Measures of the Consumer Price Index

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

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

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

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

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

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CPI-U. The Bureau of Labor Statistics (BLS) reported this morning, November 20th, that the headline, seasonally-adjusted CPI-U for October 2013 declined by 0.1% (0.06% at the second decimal point) month-to-month, and was down by 0.26% unadjusted. That followed a headline monthly gain of 0.2% (0.18% at the second decimal point), which was up by 0.12%, unadjusted, in September. The October headline reporting was below-consensus.

The BLS used a slightly less-severe estimate of falling gasoline-prices in October—a not-seasonally-adjusted drop of 4.9%, instead of the 5.1% decline indicated by the more-comprehensive industry-based surveying of the Department of Energy. With positive seasonal adjustments, the adjusted gasoline prices were down by 2.9%. Seasonal adjustments were negative for food prices as well as for the headline "core" inflation.

Encompassed by the rounded, headline CPI-U, seasonally-adjusted monthly October decline of 0.1% (down by 0.3% unadjusted), aggregate energy inflation in October 2013 was down by 1.7% for the month (an unadjusted 4.0% contraction). In the other major CPI sectors, food inflation—adjusted and unadjusted—was up by 0.1% for the month, while "core" inflation was up by an adjusted 0.1% (unadjusted 0.2%).

Not seasonally adjusted, October 2013 year-to-year inflation for the CPI-U was 0.96%, down from 1.18% in September.

Year-to-year, CPI-U inflation would increase or decrease in next month's November 2013 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.24% decrease in monthly inflation reported for November 2012. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for November 2013, the difference in November's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the October 2013 annual inflation rate of 0.96%.

Core CPI-U. Seasonally-adjusted October 2013 "core" CPI-U inflation (net of food and energy inflation) rose by 0.12% (by 0.16% unadjusted) month-to-month, versus a 0.12% (0.22% unadjusted) gain in September.

Twenty-three of the last thirty-five months have shown rising year-to-year, or annual, core CPI-U inflation, with the year-to-year core rate easing to 1.68% in October, versus 1.73% in September. The CPI core annual inflation number will be plotted and discussed further, along with the core-PPI annual inflation rate for October, in tomorrow's *Commentary No. 575*.

CPI-W. The October 2013 headline, seasonally-adjusted CPI-W, which is a narrower series and has greater weighting for gasoline than the CPI-U, contracted month-to-month by 0.11% (down by 0.35% unadjusted), following a September gain of 0.18% (up by 0.08% unadjusted).

Unadjusted, October 2013 year-to-year CPI-W inflation was 0.77%, versus 1.03% in September.

Chained-CPI-U. The initial reporting of year-to-year inflation for the October 2013 C-CPI-U was 0.95%, versus 1.17% in September, numbers for both months that were exceptionally close to the CPI-U annual estimates. The problem for the reporting of the purportedly lower, substitution-based inflation is that the

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category weightings that generate the full-percentage-point reduction in headline inflation are not available for a year or more.

Indeed, the Chained-CPI-U currently is not designed as a benchmark cost-of-living indicator, with the series subject to revisions for two years. Despite White House and Congressional efforts to make the chained index the new cost-of-living-adjustment (COLA) measure for programs such as Social Security, the system cannot be made workable, without the new index becoming even more of a sham than it already is, as concept for using a substitution-based CPI measure as a COLA. For further detail, see the *Public Commentary on Inflation Measurement and Chained-CPI*), and the C-CPI material posted on the BLS site, apparently in anticipation of 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 4.4% in October, versus 4.6% in September.

The ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, eased to about 8.5% (8.52% for those using the second decimal point) in October 2013, versus 8.8% in September.

[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).

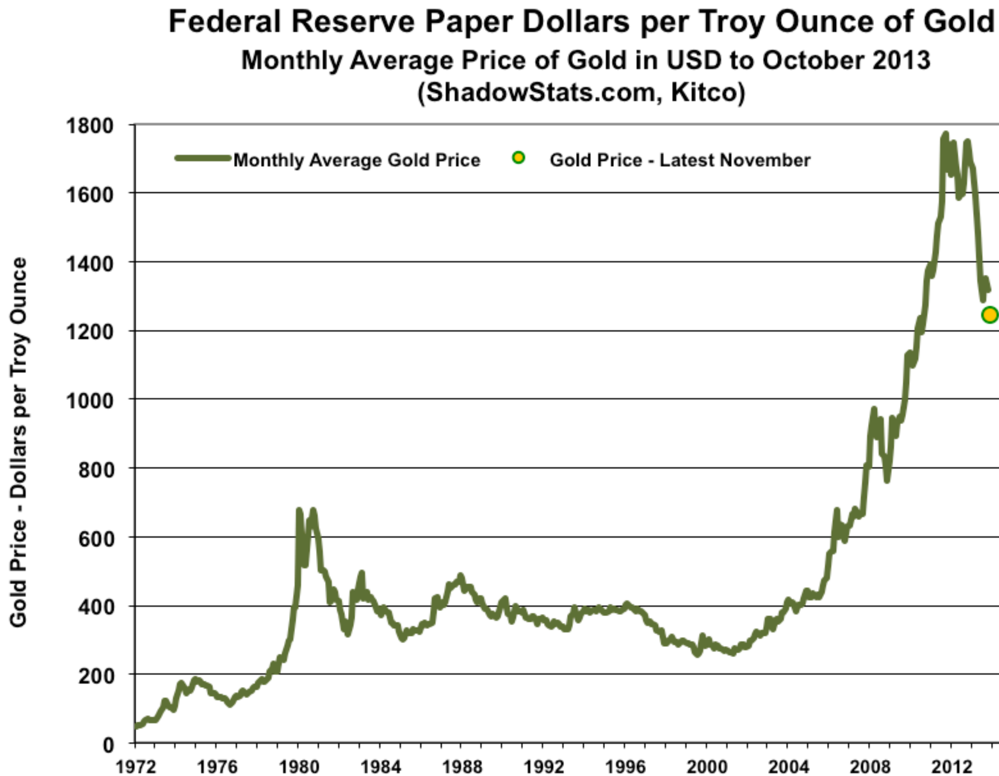
Over the decades, the BLS has altered the meaning of the CPI from being a measure of the cost of living needed to maintain a constant standard of living, to something that neither reflects the constant-standard-of-living concept nor measures adequately what most consumers view as out-of-pocket expenditures. 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 $2,552 per troy ounce, based on October 2013 CPI-U-adjusted dollars, and $10,362 per troy ounce, based on October 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 October 2013 CPI-U inflation, the 1980

silver-price peak would be $148 per troy ounce and would be $603 per troy ounce in terms of October 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).

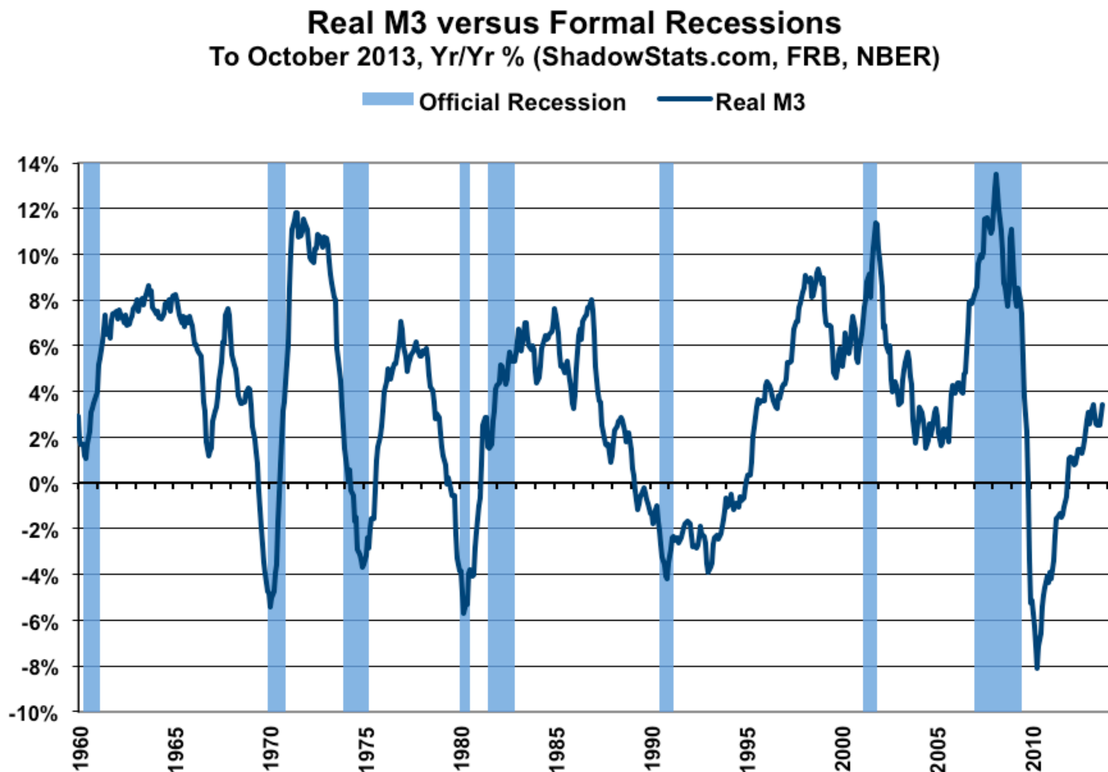


Real (Inflation-Adjusted) Average Weekly Earnings—October 2013. Coincident with today's October 2013 CPI release, the BLS published real average weekly earnings for October 2013. In the production and nonsupervisory employees series—the only series for which there is a meaningful history—headline real average weekly earnings (deflated by the CPI-W) were down by 0.1% for the month, following an unrevised unchanged monthly reading in September.

Unadjusted and year-to-year, October real earnings rose by 1.4%, versus a revised 1.4% (previously 1.2%) gain in September. 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 September 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 (October 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 October 2013 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for October 2013 increased to 3.4% from an unrevised 2.9% in September. The increase in the October annual growth rate for real M3 reflected a combination of a higher nominal annual growth rate in M3 and a lower annual CPI-U inflation rate.



[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.

RETAIL SALES (October 2013)

October Retail Sales Boost Was Greater after Adjustment for Minimally-Negative Inflation. As has been the circumstance here during the five-plus years of economic collapse, activity in consumer buying of goods and services have been 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 (see the "corrected" retail sales measure), let alone in the broader personal consumption measure in GDP. In like manner, the consumer has lacked the ability to fuel the purported post-June 2009 recovery in economic activity that has been reported for the GDP measure.

That said, October 2013 retail sales rose by a statistically-insignificant 0.41% for the month. Adjusted for a small decline in the headline CPI-U, that translated into a monthly gain of 0.47% for October real retail sales. Although those gains were above expectations, again, they were not meaningful, and they did not alter the basic outlook or traditional recession signals that will be discussed further in tomorrow's November 21st *Commentary*.

Otherwise, highly variable and unstable seasonal factors have just continued to cloud activity in the August 2013-to-October 2013 period, and in September 2012-to-October 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, six intervening rounds of post-revision concurrent-seasonal adjustments now 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

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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—October 2013. Not adjusted for consumer inflation, today's (November 20th) report on October 2013 retail sales—issued by the Census Bureau—indicated a statistically-insignificant, seasonally-adjusted monthly increase of 0.4% (0.41% at the second decimal point, a gain of 0.52% before prior-period revisions) +/- 0.58% (all confidence intervals are at the 95% level). The October increase followed a revised, statistically-insignificant month-to-month gain of 0.03% (previously a decline of 0.11%) +/-0.35%.

Year-to-year, October 2013 retail sales gained a statistically-significant 3.88% (+/- 0.82%), versus a revised 3.35% (previously 3.23%) annual gain. 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 0.06% in October, with gasoline-station sales declining by 0.06% 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:

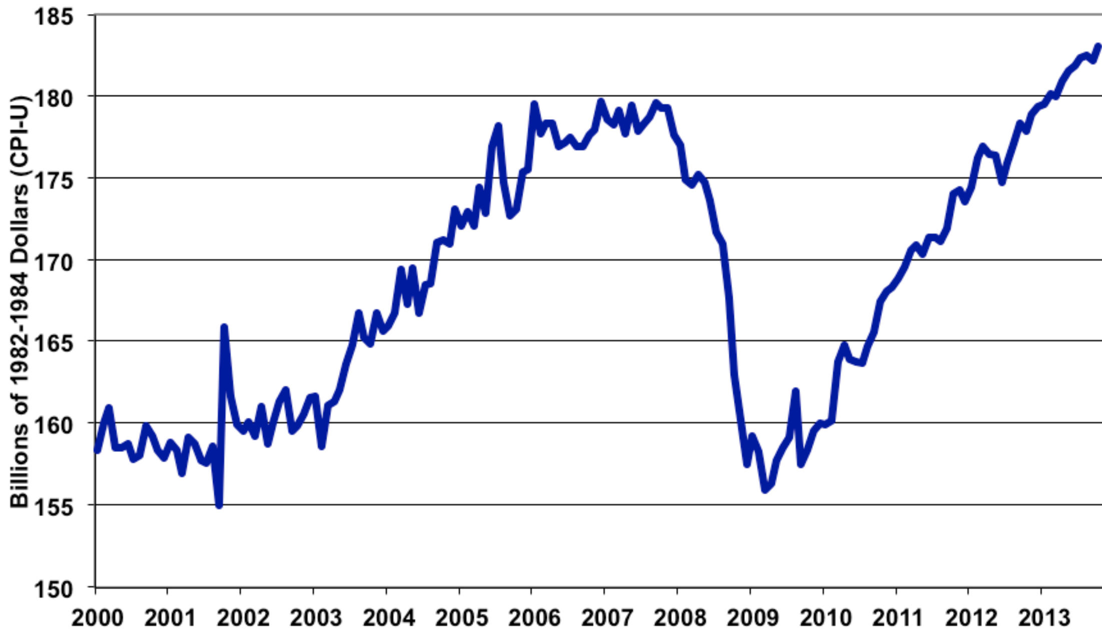
Version I: October 2013 versus September 2013 seasonally-adjusted retail sales series—net of total grocery store and gasoline station revenues—rose by 0.59%, versus the official gain of 0.41%.

Version II: October 2013 versus September 2013 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—rose by 0.46%, versus the official gain of 0.41%.

Real (Inflation-Adjusted) Retail Sales—October 2013. The headline 0.41% nominal gain in monthly October retail sales was before accounting for inflation. Based on today's (November 20th) reporting of a 0.06% monthly decline in the October 2013 CPI-U, seasonally-adjusted real (inflation-adjusted) retail sales showed a monthly gain of 0.47%, versus a revised 0.18% (previously 0.29%) monthly contraction in September.

Year-to-year, October 2013 real retail sales rose at an annual pace of 2.91%, versus a revised 2.15% (previously a 2.03%) gain in September, 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.

Real 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 (Deflated by CPI-U)
Jan 2000 to Oct 2013, Seasonally-Adj. (ShadowStats, Census, BLS)
Billions of 1982-1984 Dollars (CPI-U)
185
180
175
170
165
160
155
150
2000
2001
2002
2003
2004
2005
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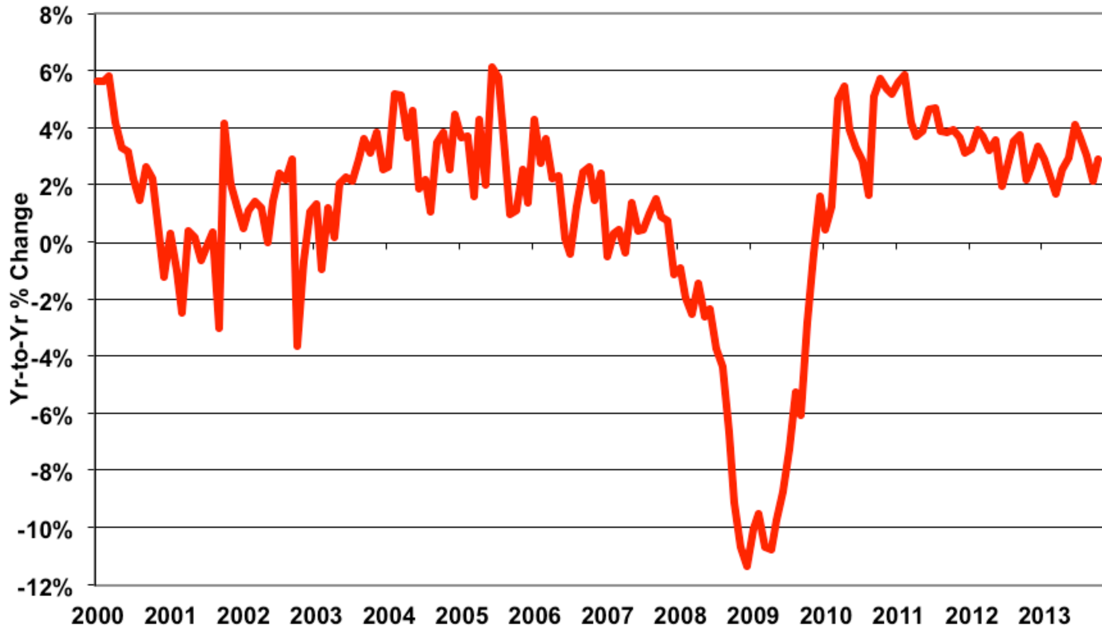
2009
2010
2011
2012
2013


Real Retail Sales Year-to-Year % Change
Jan 2000 to Oct 2013, Seasonally-Adj. (ShadowStats, Census, BLS)
Yr-to-Yr % Change
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
2000
2001
2002
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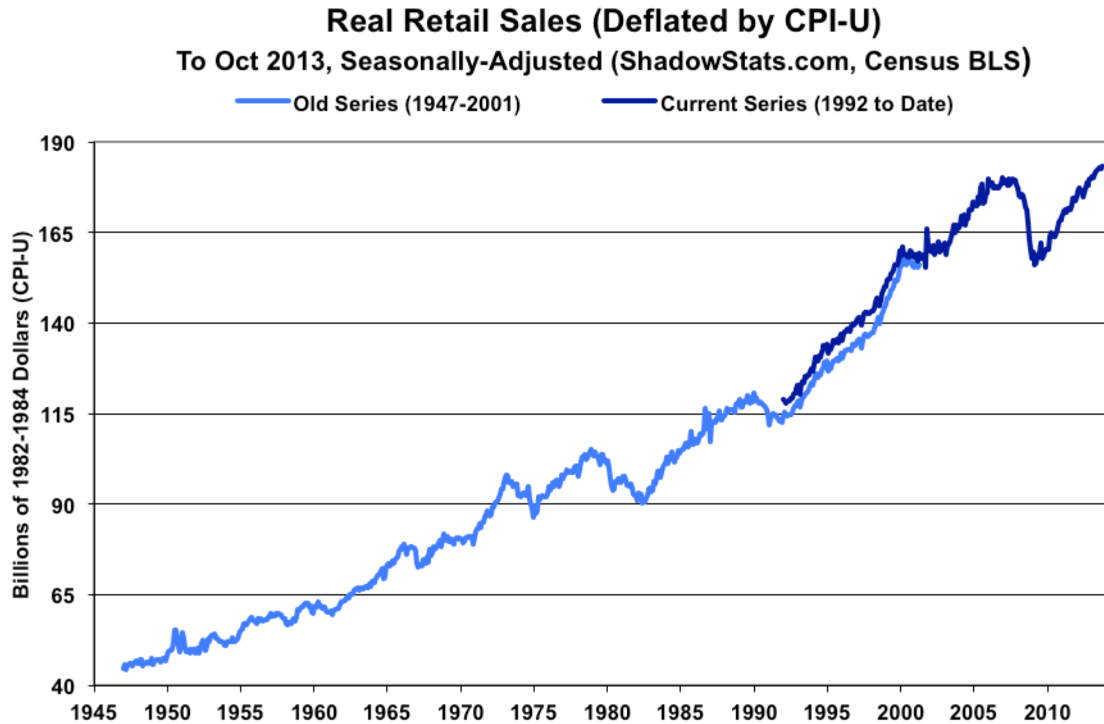
2009
2010
2011
2012
2013



The third graph (immediately-preceding) shows the level of real retail sales (and its predecessor series) in full post-World War II detail. With October 2013 reporting, the nascent expansion of headline real retail sales above pre-recession levels, which began in February 2013 and faltered in September, resumed. Where initial real changes in monthly retails generally have been flat, with subsequent upside revisions, the pattern has become one of a tapering pace of upside growth, with recent irregularity in that pattern.

The gross domestic product (GDP) expanded beyond pre-recession levels, eleven 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.

As shown in the latest "corrected" real retail sales graph, in the *Opening Comments*, with the deflation rates corrected for understated inflation, the recent pattern of real sales activity turns increasingly flat-to-negative. 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.

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Again, as discussed in the *Opening Comments*, 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 prior *CPI* section—these data should trend meaningfully lower, in what eventually will gain recognition as a formal, double-dip recession.

EXISTING-HOME SALES (October 2013)

Annual Home-Sales Growth Slowed Sharply. Reflecting mounting liquidity stresses on the consumer, and other negative pressures on the broad economy, month-to-month activity dropped sharply in October new-home sales, with annual growth slowing markedly. These numbers have to be viewed in the context of the high volatility and the questionable quality of series, but the latest trend is consistent with consumer liquidity pressures, and it likely will be mirrored somewhat in the still-pending releases of September and October housing starts and new-home sales.

This morning's (November 20th) release of October 2013 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly decline of 3.2%, versus an unrevised 1.9% contraction in September and an "unchanged" reading in August.

The October decline, to a seasonally-adjusted, monthly-unit sales pace of 426,700 (5,120,000 annualized), from 440,800 (5,290,000 annualized) in September was within the normal month-to-month volatility for this otherwise highly unstable series.

On a year-to-year basis, October 2013 annual sales growth slowed to 6.0%—down from its recent peak of 17.2% in July 2013 and at the slowest pace since June 2012. The October 2013 annual growth rate was down from 10.7% in September and 11.4% in August. October' activity remained 29.6% below the June 2005 pre-recession high for the series.

Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into a faltering uptrend, as suggested by the graph shown in the *Opening Comments* section. Again, the data remain of questionable enough quality to leave the indicated trend highly uncertain.

The NAR estimated the portion of total sales in "distressed" properties at 14% in October (9% foreclosures, 5% short sales), unchanged from September.

Reflecting ongoing lending problems, related banking-industry and consumer solvency issues, and the continuing influx of speculative investment money into the existing housing market, the NAR also estimated that all-cash sales in October were at 31% of the total, down from 33% in September, but up from 29% in October 2012.

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As discussed in the *Opening Comments*, there have been no developments in underlying economic fundamentals that would suggest a pending housing-industry turnaround or broad economic recovery.

WEEK AHEAD

Weaker-Economic and Stronger-Inflation Reporting Likely in the Months Ahead. The markets generally remain overly optimistic as to the economic outlook, although expectations have softened during the last year. That circumstance, and underlying fundamentals that remain highly 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 will be turning negative by year end, and were not positive enough in October to offset declines in unadjusted energy prices in the CPI or likely the PPI. That said, 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 the *Summary 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.

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PENDING RELEASES:

Producer Price Index—PPI (October 2013). The October 2013 PPI is scheduled for release tomorrow, Thursday, November 21st, by the Bureau of Labor Statistics (BLS). For October, PPI energy prices should prove to be a drag. Given still-understated food inflation and ongoing upside "core" inflation, the headline PPI could offer some upside surprise, but most likely it will be in contraction.

Depending on the oil contract followed, oil prices, on average, were down by 2.3% to 5.4% in October, along with a 5.1% contraction in average retail gasoline prices. Accordingly, without adequate offsetting positive seasonal adjustments to energy prices, a small monthly contraction in PPI is a good bet.

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