

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

COMMENTARY NUMBER 575
Economic Review, October PPI

November 21, 2013

October PPI Was Hit by Lower Energy Costs
Imminent Official Recession Signaled by New Leading Indicator
Broad Economy Never Recovered from Prior Downturn

PLEASE NOTE: The next regular Commentary is scheduled for Tuesday, November 26th, covering September and October housing starts. A subsequent Commentary on November 27th will cover October new orders for durable goods.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

“New” Recession Pending, Prior Recession Never Ended. Following a brief discussion on the October producer price index (PPI), current economic conditions are reviewed and summarized in today’s (November 21st) missive. The 0.2% headline contraction in the October PPI was near market expectations, and, as with the CPI reporting ([Commentary No. 574](#)) the downside movement was due to contracting gasoline and oil prices.

Introduced with this *Commentary* is a new leading indicator of economic activity, driven by differences in demand and related production capacity utilization for durable and nondurable goods. Developed by ShadowStats affiliate www.ExpliStats.com (see the discussion about ExpliStats in [Commentary No. 566](#)), the indicator remains an ExpliStats work in progress.

Separately, the broad outlook for the U.S. economy has not changed. There is a dichotomy in the reporting of U.S. economic activity, but only one reality. Headline GDP reporting shows a full recovery and renewed expansion, following a deep recession, but that pattern is not confirmed by any other major economic series. The ShadowStats version of activity shows no recovery from an even deeper downturn, followed by a protracted period of low-level stagnation that now is entering renewed contraction. The new downturn should be reflected as an official recession, in any event. Some new charts are introduced here as this circumstance is reviewed.

October PPI Decline Reflected Drop in Oil and Gasoline Prices. The seasonally-adjusted, finished-goods producer price index for October 2013 declined by 0.15% (0.20% unadjusted), versus September's monthly decline of 0.05% (0.40% unadjusted). Energy prices pulled down the aggregate October PPI, with lower oil and gasoline prices more than offsetting the impact of higher food and "core" inflation.

October's decline in finished goods inflation reflected a seasonally-adjusted 1.54% (3.16% unadjusted) monthly drop in energy costs, with a 0.79% (0.34% unadjusted) monthly gain in food costs, and a 0.16% (0.87% unadjusted) gain in "core" inflation (net of food and energy).

Unadjusted and year-to-year, October 2013 total finished-goods PPI inflation held at 0.31%, the same level as in September.

Core Finished Goods. "Core" inflation is net of food and energy inflation, where food and energy account for 41.4% of the weighting of finished goods PPI (24.6% of the CPI-U, 27.6% of the CPI-W). That said, the core measure still is useful as an indication of how energy prices are impacting inflation pressures in the broader economy. For October 2013, again, the seasonally-adjusted, month-to-month core PPI inflation gained 0.16% (0.87% unadjusted).

As plotted in the *Reporting Detail* section, year-to-year, unadjusted October core finished-goods PPI inflation rose to 1.36%, from 1.15% in September, while the annual CPI-U core inflation rate moved minimally lower in October to 1.68%, from 1.73% in September.

Intermediate and Crude Goods. Also reflecting weaker energy prices, seasonally-adjusted October 2013 intermediate-goods inflation was down by 0.4%, month-to month, having been up by 0.1% in September, while October crude-goods inflation was fell by 0.9% in the month, following a 0.5% September gain.

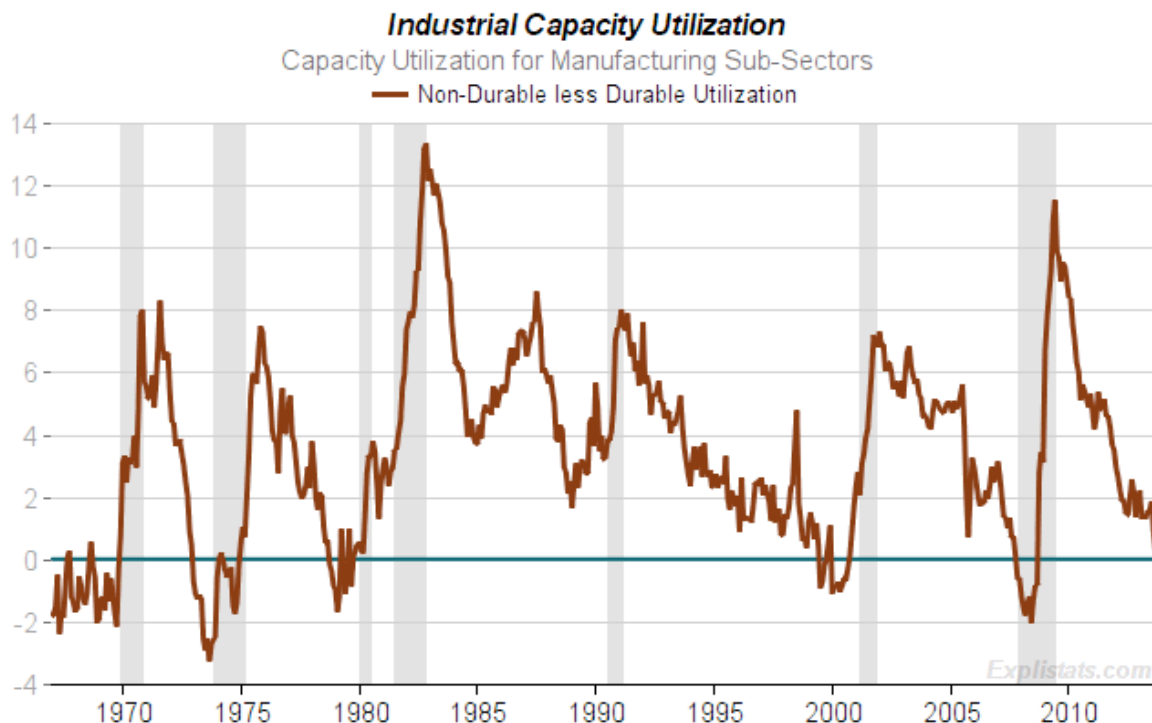
Year-to-year inflation in unadjusted intermediate goods fell by 0.8% in October 2013, having been down by 0.5% in September. Year-to-year inflation in October 2013 crude goods was a negative 0.5%, versus a 0.3% gain in September.

[For further detail on the October PPI, see the Reporting Detail section.]

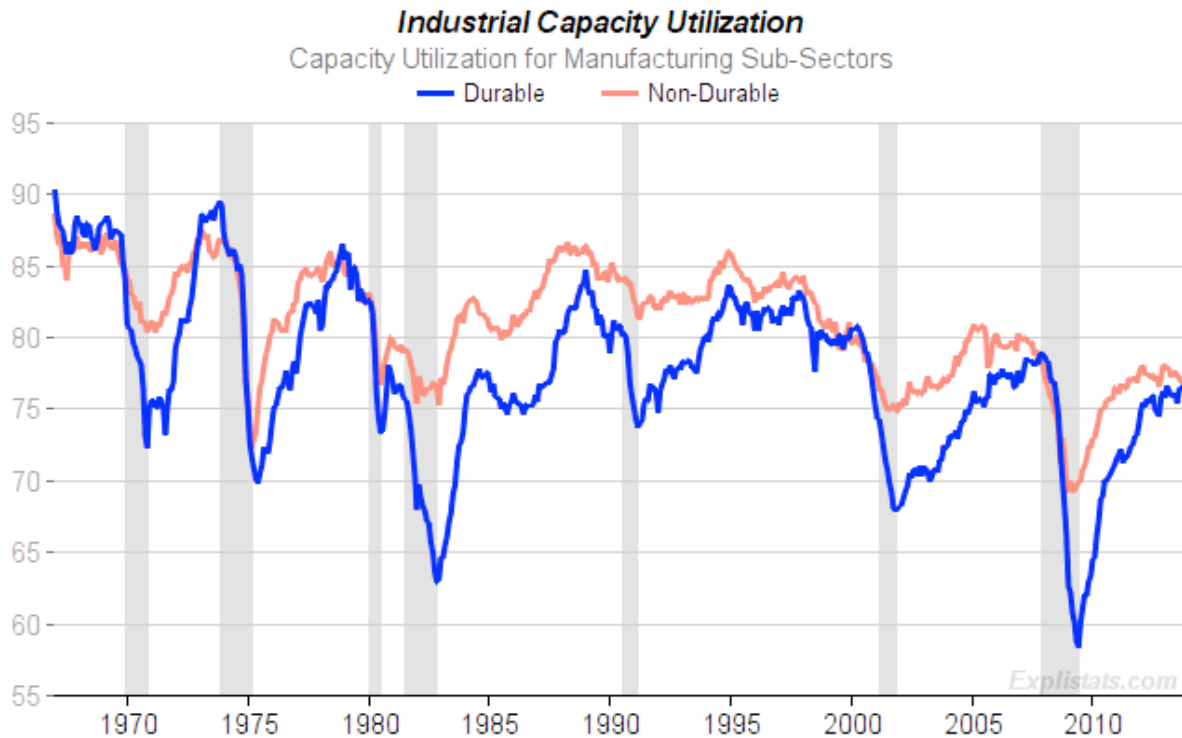
Capacity-Utilization Differentials—Durable versus Non-Durable Goods—as a Leading Economic Indicator. ShadowStats affiliate www.ExplisStats.com is developing a new leading indicator of U.S. economic activity, which is the difference between industrial capacity utilization for nondurable goods and durable goods. As shown in first graph of nondurable capacity utilization minus durable capacity utilization, whenever the difference has turned negative—when nondurable utilization has fallen below durable utilization—an official recession usually has followed very closely in time. The timing here can be leading or coincident.

The rationale as to why this would be is that as consumer spending weakens, the nondurables sector tends to be hit sooner and can pull back faster than the durables sector, in advance of an aggregate downturn in broad economic activity. Where durable goods weakness has led the economy into recession, such as happened with the winding down of the Vietnam War, the described pattern likely would not be seen, and there has not always been a signal, otherwise. Nonetheless, when there has been a signal, it generally has reflected weakness in consumer spending, leading the broad economy into contraction.

The pattern described here also tends to be a leading indicator of a downturn in industrial production, and therein lies a tie to official recessions. The National Bureau of Economic Research (NBER) is the official arbiter of economic recessions in the United States, and industrial production is one of the primary indicators used by the NBER in timing the onset of an official recession.



Shown in the preceding graph, the current level of the indicator is closing in on zero. The next graph shows that the low reading is due to the contraction in nondurables capacity versus durables, signaling pending recession. This indicator remains under development, but further detail is available [here](#).



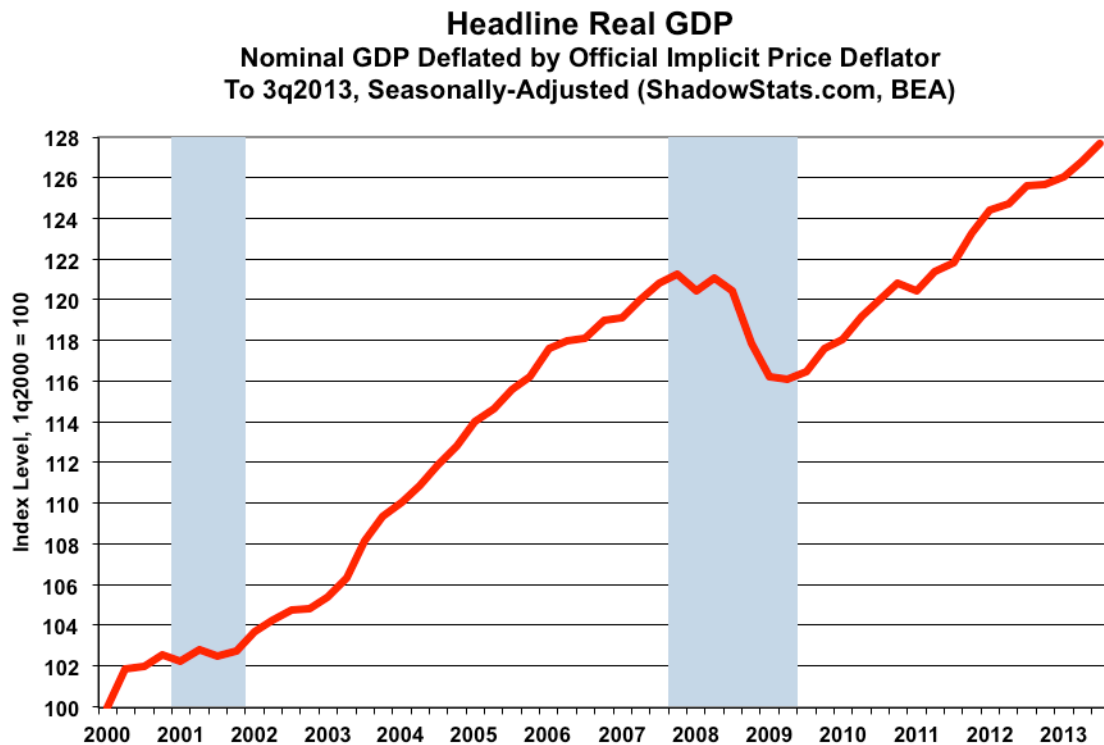
The Economy Never Recovered and Is Heading Down Anew. With real (inflation-adjusted) third-quarter 2013 GDP activity 5.3% above pre-recession levels, official GDP reporting has the U.S. economy in full recovery, with ongoing, renewed expansion (see *Graph 1* and [Commentary No. 571](#)).

That would be happy news if only common experience and other major economic indicators confirmed it. Instead, most official indicators and the ShadowStats analysis of the current business cycle show that subsequent to the economic collapse of 2008 into mid-2009, the U.S. economy did not recover; instead it stagnated at a low level of activity, and now it is turning down anew. As suggested by the leading indicator introduced in the prior section, and also as signaled by annual growth in official real retail sales and industrial production reporting, the unfolding downturn likely will be recognized formally as a “new” recession, given that the 2007 recession formally ended in second-quarter 2009.

No other major economic series has shown a parallel pattern of full economic recovery and beyond as reflected by the official real GDP. Only headline real retail sales—a coincident indicator of GDP activity—recently moved minimally past that full-recovery point, but such happened seven quarters after the GDP reached that point and where the gain reflected inflation-adjustment issues, as will be discussed further. Either the GDP reporting is a fantasy, or all other major economic series are wrong. While the

GDP is heavily modeled, imputed, theorized and gimmicked, it also encompasses reporting from those various major economic series and private surveys, which still attempt to survey real-world activity. Flaws in the GDP inflation methodologies, built-in upside biases and simplifying reporting assumptions have created the illusion of a “recovery.”

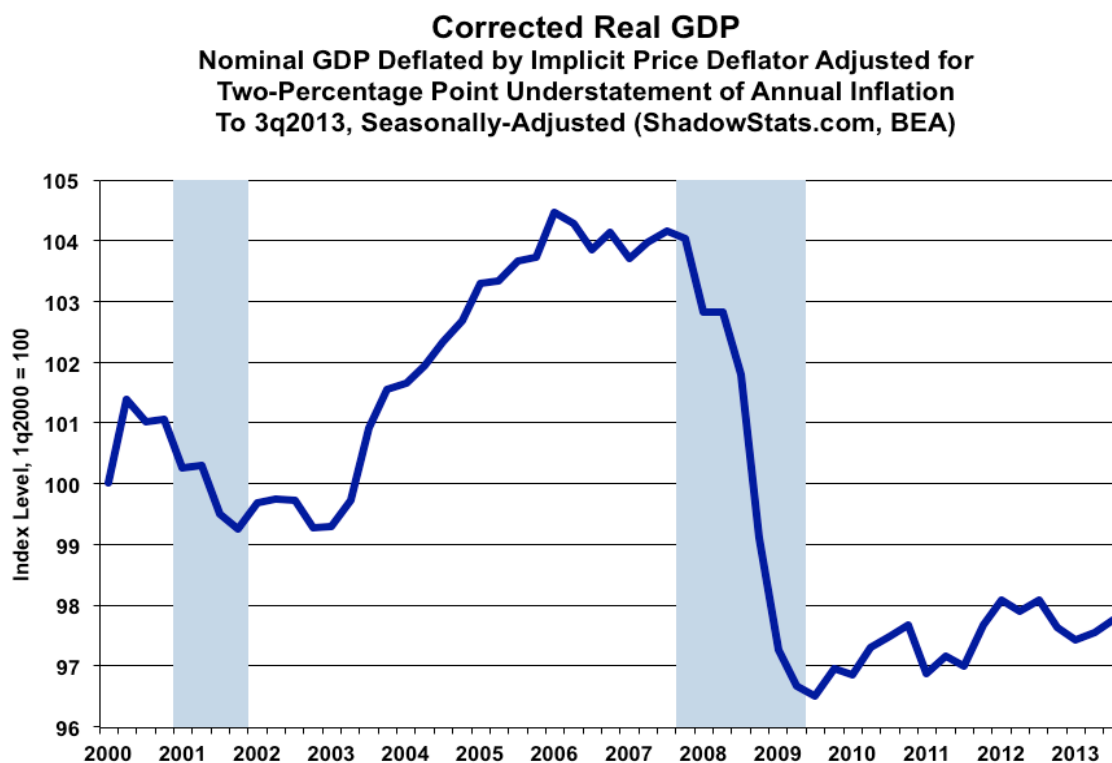
Graph 1



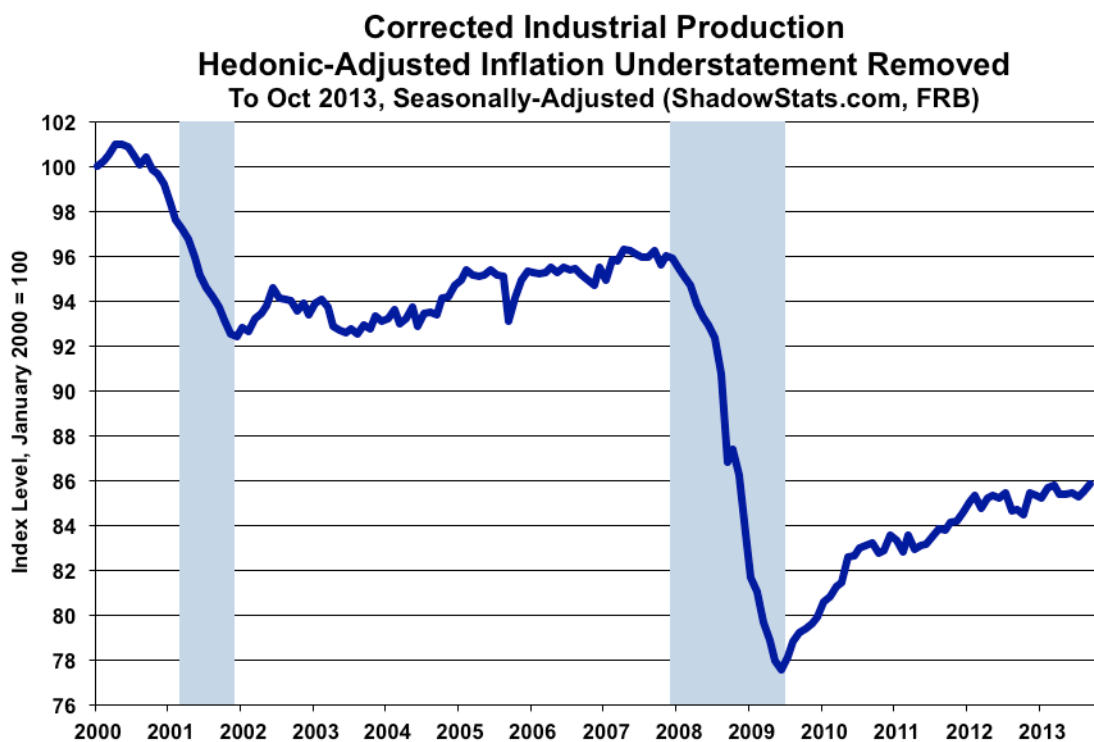
Graph 1 shows the official, headline GDP reporting. As discussed extensively in [No. 527: Special Commentary](#), [Commentary No. 571](#) (GDP), [Commentary No. 573](#) (industrial production), [Commentary No. 574](#) (retail sales) and the [Public Comment on Inflation](#), inflation-adjusted growth is overstated regularly in the real GDP, industrial production and real retail sales reporting, because the inflation rates used in deflating those numbers have been understated. The weaker the inflation rate used in deflating a series, the stronger will be the reported inflation-adjusted growth. These distortions are not seen in series such as housing starts, where inflation-adjustment is not part of the data preparation.

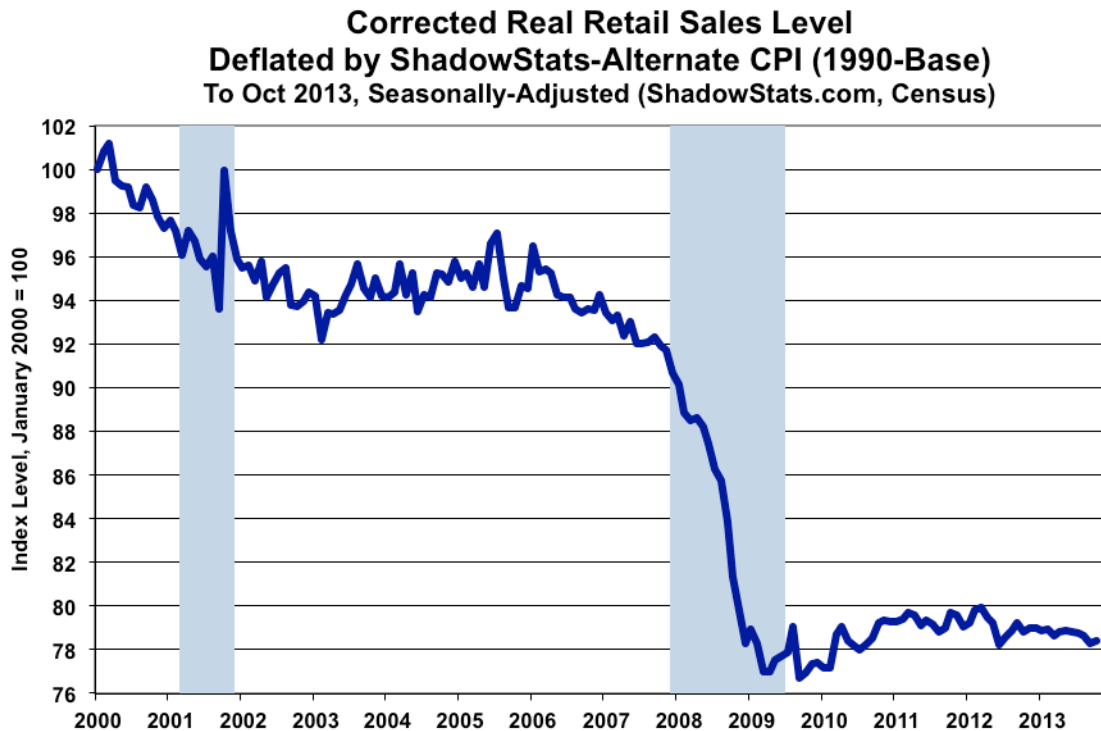
The following three graphs reflect “corrected” reporting of the real GDP (*Graph 2*), industrial production (*Graph 3*) and real retail sales (*Graph 4*), where understated inflation used in deflating each series has been adjusted to more-realistic levels. Further details, and the same graphs on a pre-corrected basis, are found in the above referenced links (again, uncorrected real GDP is in *Graph 1*). With too-low-inflation-induced statistical illusion removed, these series generally show the plunge and stagnation pattern seen in housing starts and all the other indicators (almost all official) shown in the balance of this *Commentary*, not the official plunge-and-recovery pattern of the fictional GDP story.

Graph 2



Graph 3

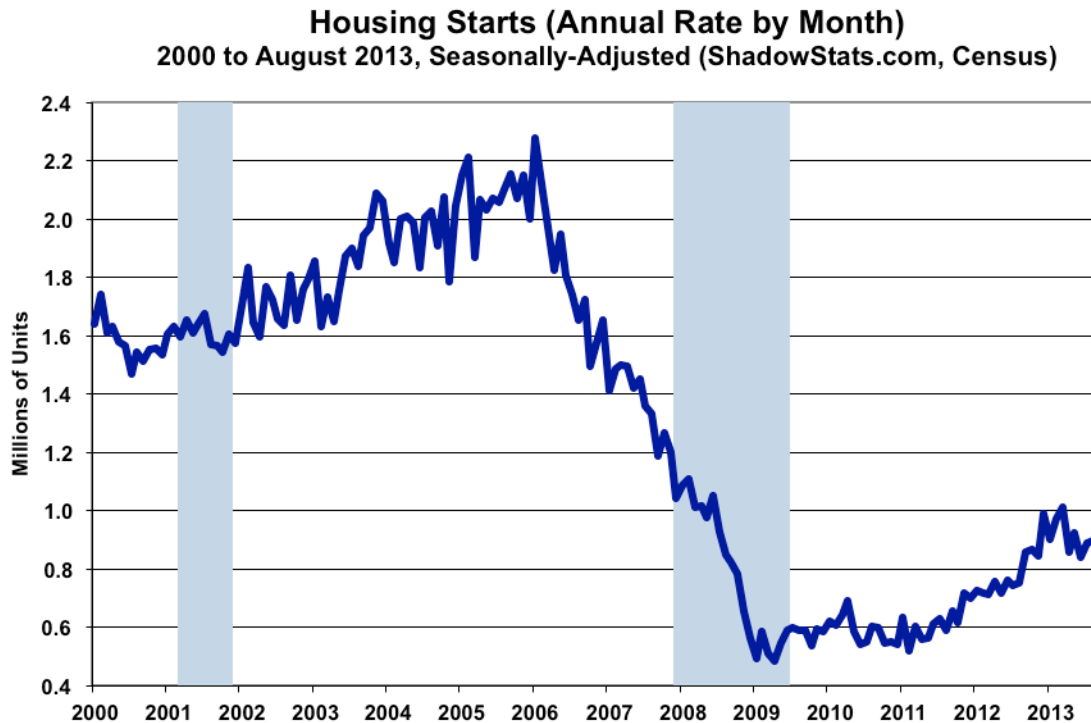


Graph 4

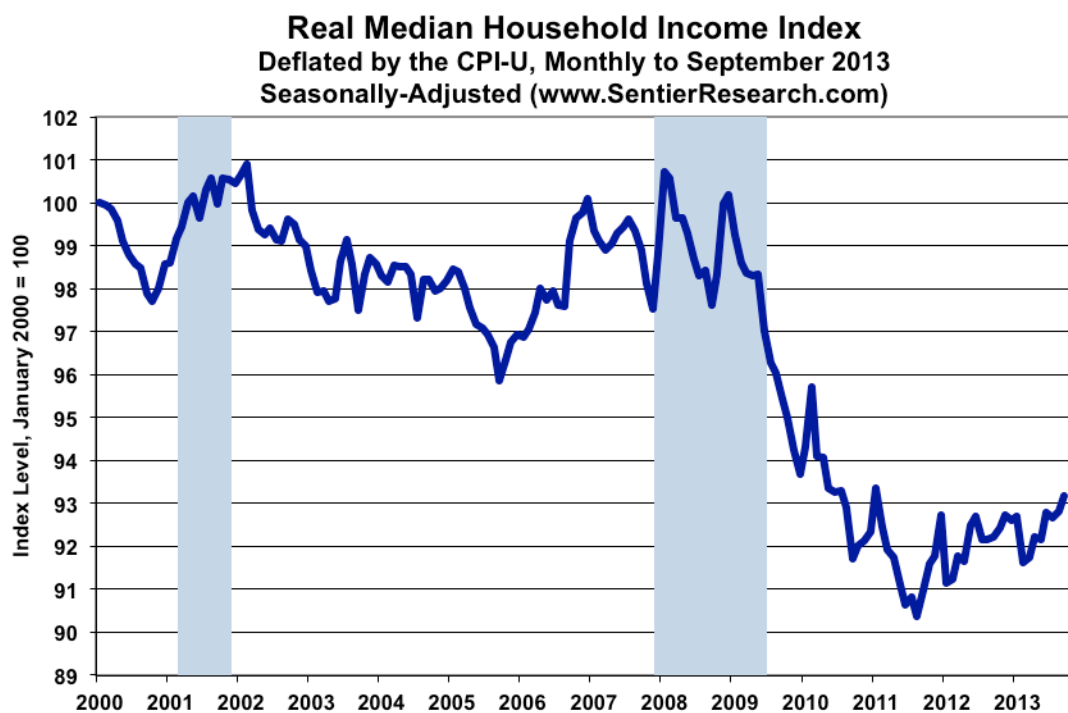
The pattern seen in the corrected real retail sales levels (*Graph 4*) is—as might be expected—is consistent with the patterns seen in the consumer liquidity and confidence issues. Those issues also directly impact the housing market, reflected in *Graph 5* of official housing starts. Again, the patterns of activity here, and going forward, all are plunge and stagnation, not plunge and recovery. All graphs are updated for the latest October or September reporting. Housing starts have not been updated since August reporting, due to the impact of the government shutdown in October.

Without growth in real income (see *Graph 6* of real median household income), with weakening labor conditions (see *Graph 7* of the civilian employment-population ratio, and *Graph 8* of the ShadowStats Alternate Unemployment Measure [inverted unemployment rate scale]), without the ability to expand debt (see consumer credit outstanding in [Commentary No. 572](#)) and/or the lack of confidence to take on new debt (see *Graph 9* of consumer confidence and *Graph 10* of consumer sentiment), the consumer does not have the ability to fuel any expansion or recovery. These persistent problems also explain why the purported recovery in the consumer-dominated U.S. GDP simply could not have taken place.

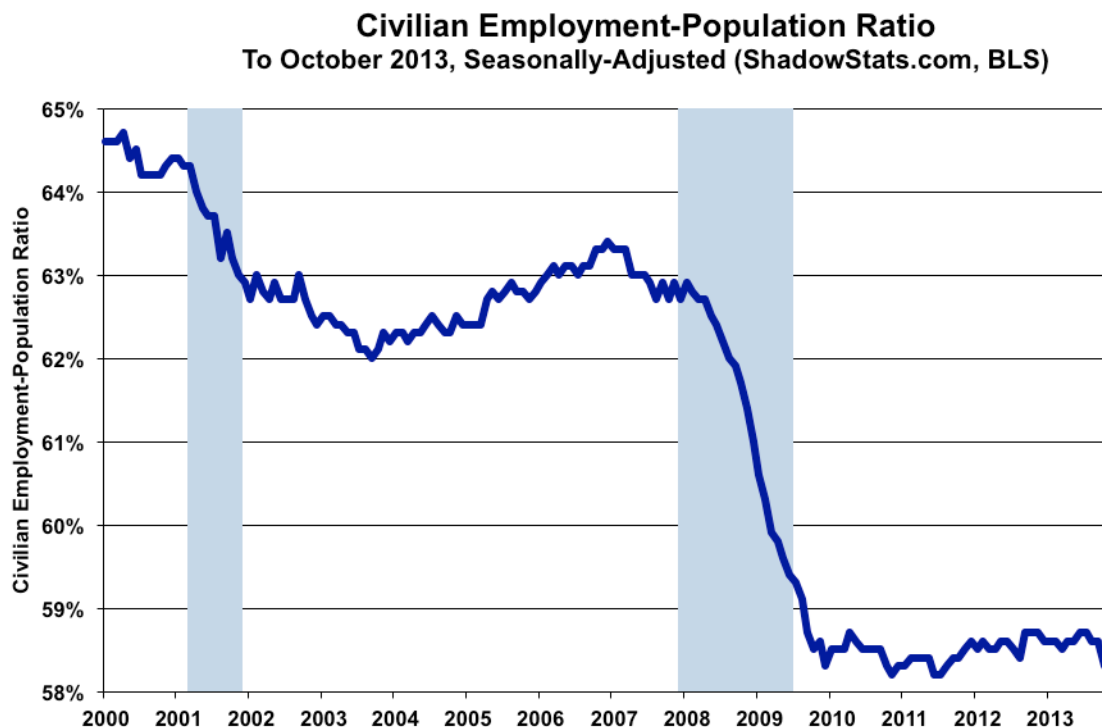
Graph 5



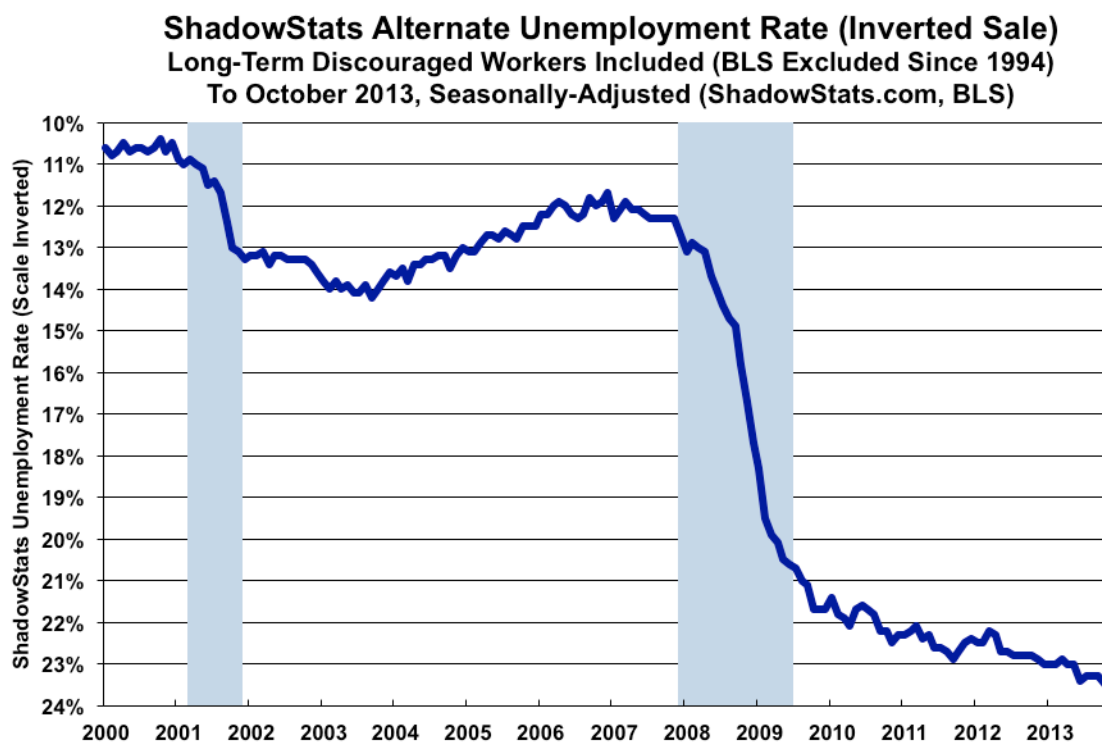
Graph 6



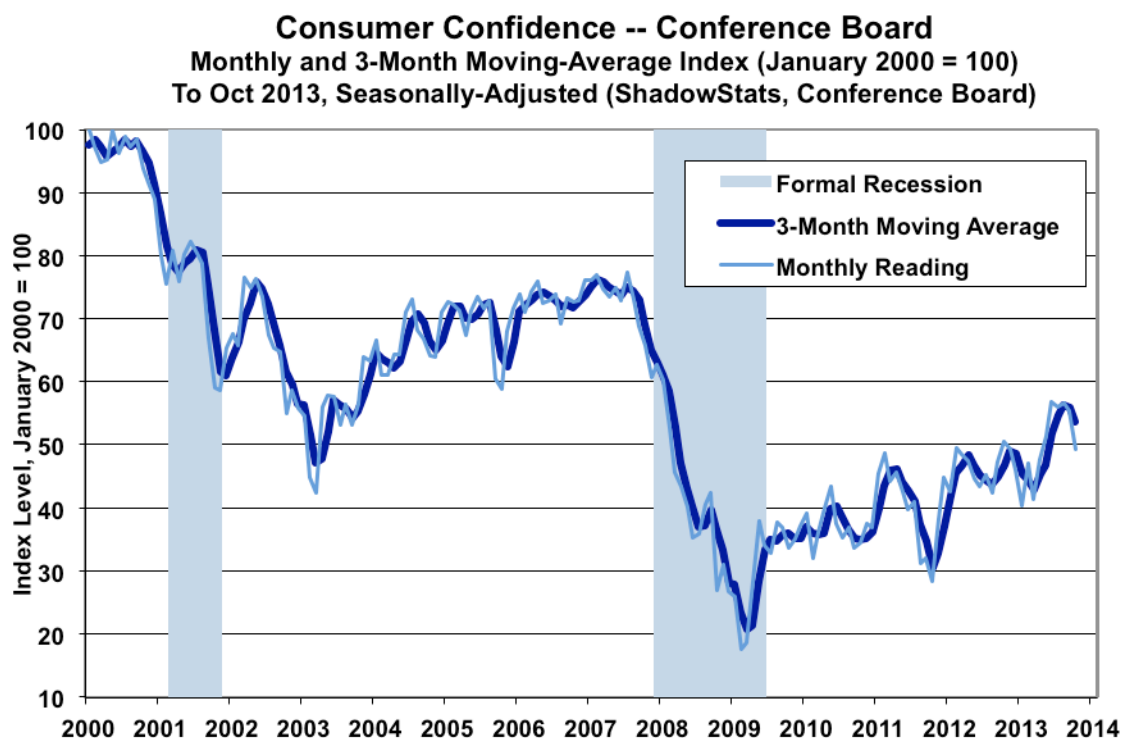
Graph 7



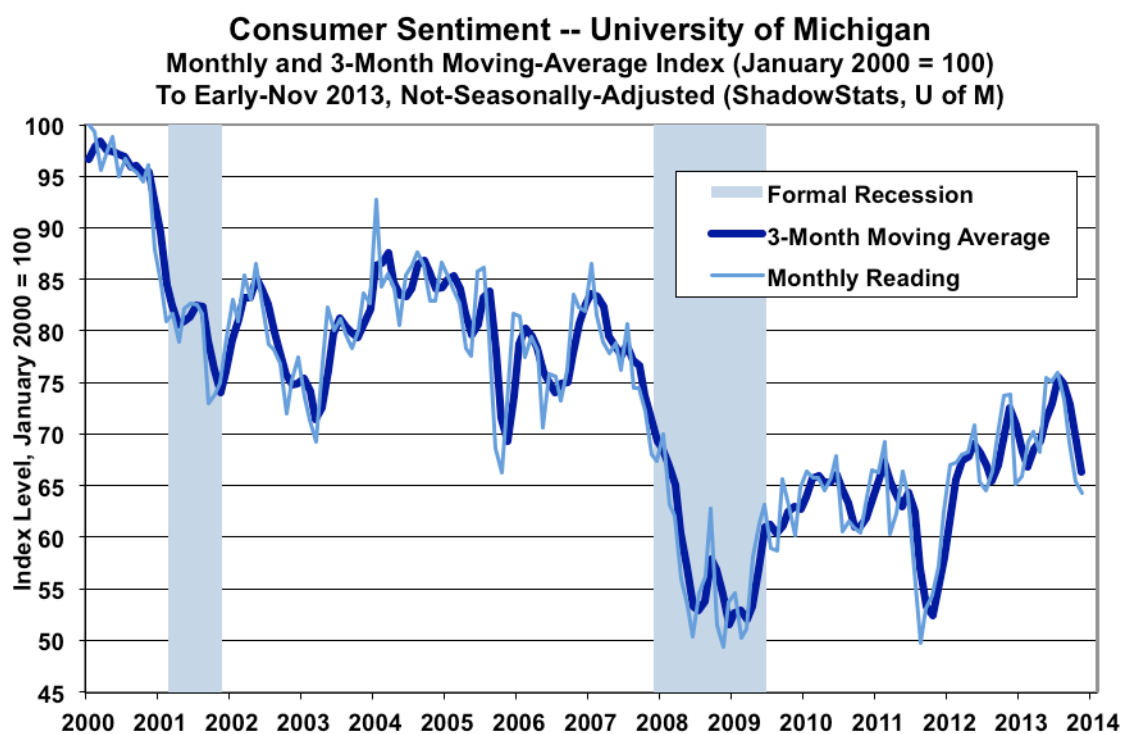
Graph 8



Graph 9



Graph 10



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 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-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 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.

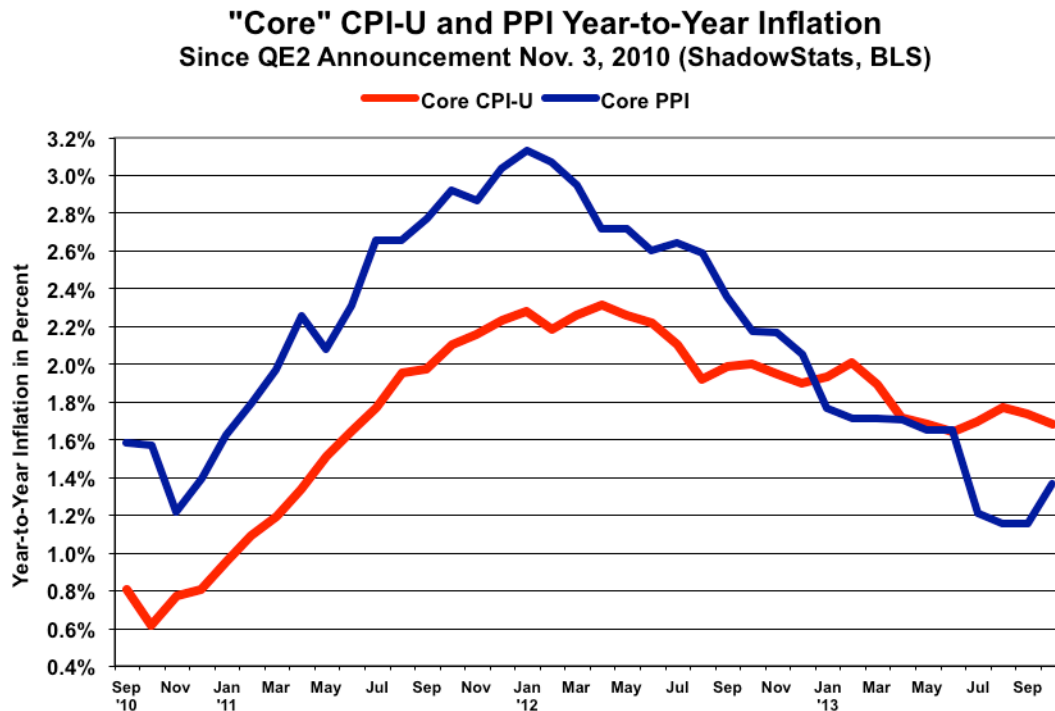
REPORTING DETAIL

PRODUCER PRICE INDEX—PPI (October 2013)

October PPI Hit by Weaker Energy Prices. As reported this morning, November 21st, by the Bureau of Labor Statistics (BLS), the regularly-volatile, seasonally-adjusted finished-goods producer price index (PPI) for October 2013 declined by a headline 0.2%. That was a contraction of 0.15% at the second decimal point (down by 0.20% unadjusted). The headline September number previously was reported down by 0.1% (by 0.05% at the second decimal point, and down by 0.40% unadjusted). Energy prices pulled the aggregate, seasonally-adjusted October PPI lower, with declining oil and gasoline prices more than offsetting the impact of higher food and “core” inflation.

October's monthly contraction in finished goods inflation reflected a seasonally-adjusted 1.54% (3.16% unadjusted) monthly decline in energy costs, with a 0.79% (0.34% unadjusted) monthly gain in food costs, and a 0.16% (0.87% unadjusted) gain in "core" inflation (net of food and energy).

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

That said, the core measure still is useful as an indication of how energy prices, in particular, are impacting inflation in the broader economy. For October 2013, again, the seasonally-adjusted, month-to-month core PPI inflation gained 0.16% (0.87% unadjusted). Year-to-year, unadjusted October core finished-goods inflation rose to 1.36%, from 1.15% in September. A comparison of core-PPI with core-CPI-U year-to-year growth in October 2013 is shown in the accompanying graph, where annual CPI-U core inflation moved minimally lower to 1.68% from 1.73% in September.

Intermediate and Crude Goods. Also reflecting weaker energy prices, seasonally-adjusted October 2013 intermediate-goods inflation was down by 0.4%, month-to month, having been up by 0.1% in September,

while October crude-goods inflation was negative by 0.9% for the month, following a gain of 0.5% in September.

Year-to-year inflation in unadjusted October 2013 intermediate goods fell by 0.8%, having been down by 0.5% in September. Year-to-year inflation in October 2013 crude goods was a negative 0.5%, versus a 0.3% gain in September.

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

For example, the recently published experimental PPI for last month’s reporting of September 2013 “final demand goods,” was unchanged for the month, while current “finished goods” estimate published for September was a 0.1% monthly decline for total finished goods.

One of the new features, however, is “final demand services,” which includes trade (change in margins for wholesalers and retailers), transportation and warehousing, among other categories. The new “services” category showed a headline contraction of 0.4% for September 2013. As a result, the total final demand (goods, services and construction which are sold for personal consumption, capital investment, U.S. Government, and export [BLS definition]) inflation was down by 0.3% for the month of September, instead of the currently published, official 0.1% and with year-to-year September 2013 inflation at 1.1% instead of the current 0.3%. A comprehensive analysis of the new versus old PPI, including its leading relationship—if any—with the CPI, will be published when more-complete detail is available.

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 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.

PENDING RELEASES:

Residential Construction (September and October 2013). In some catch-up reporting, the Census Bureau will publish its estimates of September and October housing starts activity on Tuesday, November 26th. Despite near-perpetual market expectations for strengthening activity in housing starts, reported month-to-month change likely will continue to be statistically-insignificant, month-to-month, in both September and October, with ongoing stagnation seen in the aggregate series, as well as particularly for single-unit housing starts.

In the wake of a 75% collapse in aggregate activity from 2006 through 2008, and an ensuing four-year pattern of housing starts stagnation at historically low levels, little has changed. There remains no chance of a near-term, sustainable turnaround in the housing construction market, unless there is a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and still does not appear to be in the offing as discussed in the *Opening Comments* section.

New Orders for Durable Goods (October 2013). The Census Bureau has scheduled release of the October 2013 new orders for durable goods for Wednesday, November 27th. Other than for the continuing sharp and irregular volatility in commercial aircraft orders, new orders generally have been stagnant. Once again, some intensification of recent, sporadic downside movement in non-commercial aircraft orders remains likely during the next several months, coincident with slowing activity evident in

other economic indicators. Such reporting generally would tend to surprise market expectations on the downside.

As to the inflation contribution to the monthly and annual change in new orders, the seasonally-adjusted, October 2013 PPI finished goods capital equipment inflation index was up by 0.1%, month-to-month (up by 0.9% month-to-month, not seasonally-adjusted), with year-to-year unadjusted (and adjusted) inflation at 1.0%. These inflation numbers increasingly are nonsensical. Due to hedonic-quality-adjustment distortions to this portion of the PPI series, as with the industrial production and GDP numbers, those inflation data understate inflation reality and, correspondingly, overstate inflation-adjusted growth, by perhaps three-percentage points per year.
