

COMMENTARY NUMBER 582
November Industrial Production, Producer Price Index (PPI)
December 16, 2013

Strong Monthly Production Was in the Context of Slowing Annual Growth

**Despite Being a Coincident Indicator to GDP,
Headline Production Just Topped Pre-Recession High for First Time,
Lagging GDP by 11 Quarters**

Corrected for Understated Inflation, Production Has Not Recovered

Producer Price Index Decline Reflected Lower Energy Prices

PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Tuesday, December 17th, covering the November CPI, real retail sales and earnings; followed by Commentaries on December 18th, covering September, October and November housing starts; and on December 20th covering the second revision and third estimate of third-quarter GDP, plus November existing home sales.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

In this week of frequent economic releases and *Commentaries*, today's missive will be brief, covering the detail from the November 2013 surveys of produce prices and industrial production. A more-comprehensive economic summary and review will follow in Friday's (December 20th) *Commentary No.*

585, which will cover the third estimate, second revision of third-quarter 2013 GDP, subsequent to intervening reporting on November consumer prices and related real retail sales and earnings, and three-months of catch-up reporting on housing starts.

November Industrial Production—Boosted by Unusually-Cold Weather, Production Hit an All-Time High. Suggestive of seasonal-adjustment problems, headline November industrial production rose by 1.1%, the strongest monthly showing since November 2012. Where about half the monthly gain came from manufacturing, the balance reflected an unusual upside swing in mining activity, and an irregular surge in utility usage, due to unseasonably-cold weather. October’s headline monthly number was revised upwards from an initial 0.1% contraction to a 0.1% gain. Although the November monthly gain was strong, year-to-year growth slowed to 3.2%, from 3.4% in October.

The headline slowing of annual growth continued at a level consistent with a seriously-troubled broad economy, a pattern of year-to-year activity that remained “pre-recession,” when viewed in the context of normal economic times. The economy remains on the brink of falling into what formally should be recognized as renewed recession. Weaker production numbers—revised and otherwise—remain likely in the months ahead.

New High for the Series. Nonetheless, the November reporting took the industrial production index to a new high, breaking above the pre-recession peak activity of February 2008 for the first time. This “recovery” is not real. The use of understated inflation—in deflating certain components compiled in the production index—has resulted in overstated headline production growth. As discussed and shown with the “corrected” graph at the end of this section, actual production remains well shy of an economic recovery.

Inconsistent Reporting with GDP. Industrial production widely is recognized as a coincident indicator of GDP activity. It is used by the National Bureau of Economic Research (NBER)—the defining authority for U.S. recessions—for timing the onsets of recessions. What is unusual here is that the headline GDP has been fully recovered, in economic expansion, since second-quarter 2011. If the GDP data and the production numbers were of good quality, the two series would be moving together, rather than having the production numbers lag GDP reporting by eleven quarters. As has been discussed frequently, and as will be covered anew in Friday’s *Commentary No. 585*, there are serious reporting flaws with both series, particularly the GDP.

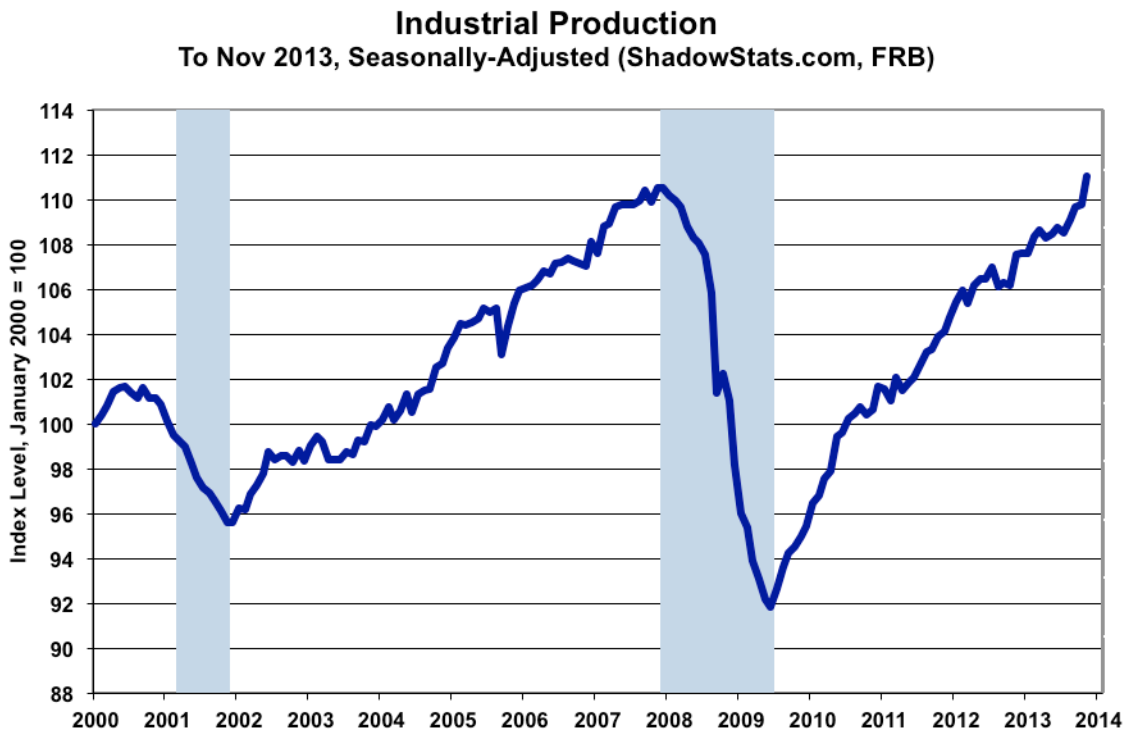
Industrial Production—November 2013. In the context of an upside revision to October and a downside revision to September (among minor revisions to the other four months of production that were open to revision), headline monthly November industrial production rose for the month by 1.1% (up by 1.13% at the second decimal point) and was up by 1.31% for the month, net of prior-period revisions. October revised to a gain of 0.1% (a 0.10% gain at the second decimal point, previously a 0.14% contraction). September production revised to a gain of 0.5% (0.52%, previously 0.65%, initially a 0.57% gain).

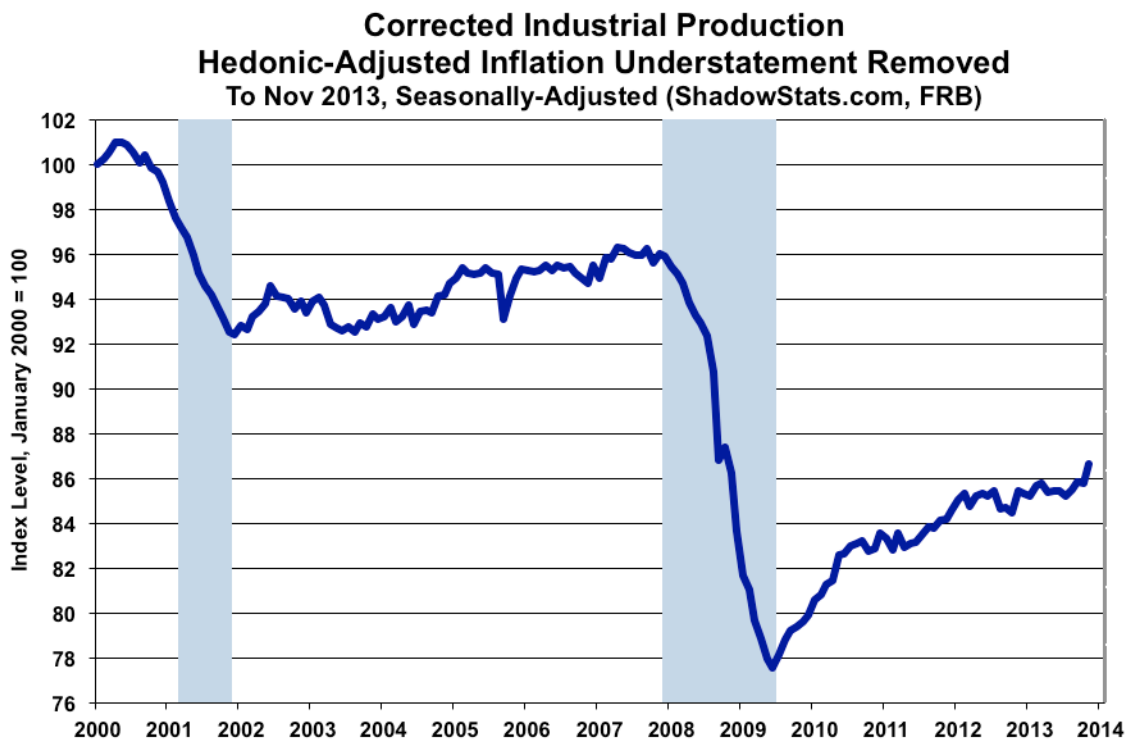
The headline 1.1% gain in aggregate November production activity reflected a 0.6% gain in manufacturing, which was against a revised 0.5% gain in October. Headline mining activity, including oil and gas activity, rose by 1.7% in November, versus a revised 1.5% contraction in October, while ever-unstable utility activity jumped 3.9%, reflecting unusually-cold weather, versus a revised 0.3% decline in October.

Further break-out detail on the official numbers may be found on the site of ShadowStats affiliate www.ExpliStats.com.

Year-to-year growth in November 2013 slowed to 3.23%, versus a revised 3.42% in October and a revised 3.19% in September. Allowing for series volatility and special factors tied to weather-related utility distortions, annual growth has slowed to levels last seen during the mid-2008 economic collapse, and it remains consistent with annual growth patterns usually seen going into a recession.

Graphs showing the headline production levels and year-to-year changes in production are found in the *Reporting Detail* section. The following graphs also show the official level of production activity (first graph) as well as the official data, net of inflation distortions, as corrected by ShadowStats (second graph).





Corrected Industrial Production. Hedonic quality adjustments to inflation understate the inflation used in calculating some components of industrial production, with the effect of overstating the inflation-adjusted growth in the headline industrial production series (see [Special Commentary \(No. 485\)](#) and [Public Comment on Inflation](#)). The two preceding graphs address that issue. The first reflects official industrial production reporting, indexed to January 2000 = 100, instead of the Fed’s index that is set at 2007 = 100. The 2000 indexing is used simply to provide for some consistency in this series of revamped graphics; it does not affect the appearance of the graph. The second graph is a corrected version of the first, with estimated hedonic-inflation adjustments backed-out of the official deflator.

The “corrected” graph does show some growth in the period following the official June 2009 near-term trough in production activity. Yet, that upturn has been far shy of the full recovery and the renewed expansion reported in official GDP estimation. Although the headline November production just recovered the pre-recession high for the series (first graph), corrected production levels have not regained pre-recession highs, but, instead, entered a period of protracted low-level stagnation in 2012, with quarterly contractions in third-quarter 2012, second-quarter 2013, with stagnation in third-quarter 2013 and some upturn, so far, in the fourth-quarter 2013 (second graph).

Producer Price Index (PPI)—(November 2013). Weaker energy prices continued to take their toll on wholesale inflation, with the regularly-volatile, seasonally-adjusted finished-goods producer price index (PPI) for November 2013 declining by 0.1% (down by 0.05% at the second decimal point, down by

0.51% unadjusted). October's headline PPI had declined by 0.2% (0.15% at the second decimal point, down by 0.20% unadjusted). The energy sector indeed pulled the aggregate, seasonally-adjusted November PPI lower, with declining oil and gasoline prices more than offsetting the impact of higher "core" inflation and unchanged food prices.

November's monthly contraction in finished goods inflation reflected a seasonally-adjusted 0.37% (2.32% unadjusted) monthly decline in energy costs, with unchanged monthly food costs (both seasonally- and not-seasonally-adjusted unadjusted), and an adjusted 0.05% gain (unchanged on an unadjusted basis) for "core" inflation (net of food and energy).

Unadjusted and year-to-year, November 2013 total finished-goods PPI inflation rose to 0.72%, from 0.31% in October and September.

Intermediate and Crude Goods. Also reflecting weaker energy prices, seasonally-adjusted November 2013 intermediate-goods inflation was down by 0.5%, having been down by 0.4% in October, while November crude-goods inflation was negative by 2.6% for the month, following a 0.9% contraction in October.

Year-to-year inflation in unadjusted November 2013 intermediate goods fell by 0.5%, having been down by 0.8% in October. Year-to-year inflation in November crude goods was a negative 3.3%, versus a 0.5% contraction in October.

Experimental New Series. Starting with reporting of the January PPI in 2014, the producer price index series will be recast, with a complete overhaul, redefinition and expansion (see the descriptive BLS link: [New PPI](#)). An estimate of inflation in wholesale services will be combined with something akin to the current finished goods measure to produce a broader-based, headline wholesale inflation number for goods and services. More-extensive detail and specific *pro forma* reporting of the new series as of November 2013 are covered in the *Reporting Detail* section.

For example, the new headline total final demand inflation (goods, services and construction, which are sold for personal consumption, capital investment, U.S. Government, and export [BLS definition]), was up year-to-year in November 2013 by 1.02% (up by 1.20% in October), compared with the current headline "final goods" series of 0.72% annual growth for November (0.31% for the October). Depressing the narrower, current-series annual headline growth numbers are weak energy prices. Based on historical patterns, though, the new headline PPI inflation number should tend to run lower than the old headline PPI number.

[For further detail on November industrial production and the PPI, see the Reporting Detail Section.]

HYPERINFLATION WATCH

Summary Hyperinflation Outlook. This summary is intended as guidance for both new and existing subscribers 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.

Minor Update. Other than an adjustment to the comment on fed monetization (now at 65.5% of net issuance of publicly-held debt since January 1st, reflecting the post-shutdown surge in net Treasury borrowings), which is underlined, the *Summary Hyperinflation Outlook* is as it was last updated in the prior *Commentary No. 581*. Publication plans for *Hyperinflation 2014—The End Game*, which will be a fully-updated and expanded version of [Hyperinflation 2012](#), also were discussed in the *Opening Comments* of [Commentary No. 581](#).

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.

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 \$16.1 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. Indeed, for fiscal 2013, the GAAP-based annual deficit likely remained well in excess of \$6 trillion, with gross federal debt (adjusted for year-end debt-ceiling accounting gimmicks) was about \$17.1 trillion and total federal obligations in excess of \$90 trillion. Details and discussion can be found in [No. 500: Special Commentary](#) and [Commentary No. 577](#).

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 was demonstrated in the October 2013 crisis negotiations (and in negotiations of recent years) surrounding the debt ceiling, and as openly confirmed in the two-year “budget deal” announced on December 10, 2013, there will be no action taken in the foreseeable future to address the long-term solvency issues facing the United States. There simply is no controlling, political will in Washington to do so.

Recent budget negotiations have reflected 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 now, after further multiple delays, have been pushed until after the 2014 midterm election. Chances that the global financial markets will give the gutless politicians in Washington a pass on this are nil, and renewed selling pressure on the U.S. dollar in the global currency markets has begun to pick up.

The odds of the United States actually not paying its obligations or interest over the long-term are negligible. Instead, typically a country, which issues its debt in the currency it prints, simply prints the cash it needs when it 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 effectively will drop 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 (see [Commentary No. 580](#)). 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 face incoming Fed Chairman Janet Yellin, along with 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. Even if it were modified minimally in the near-term, in order to placate the Fed’s critics, ongoing economic weakness and systemic instabilities favor increased, not reduced, Federal Reserve quantitative easing during the months ahead.

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. Through the government shutdown in October, the Fed had monetized in excess of 100% of the net issuance of U.S. Treasury debt, since the beginning of calendar-year 2013. That has dropped back, though, to 65.5% of net issuance of publicly-held debt (to 60.7% of net issuance of gross federal debt), as of Dec 11th, due to a catch-up surge of \$480 billion in net government borrowing following President Obama's waiving the debt ceiling. Nonetheless, the Fed's purchases of U.S. Treasury securities have continued at a steady pace of about \$10 billion per week.

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

INDEX OF INDUSTRIAL PRODUCTION (November 2013)

November Industrial Production Surged, Breaking Pre-Recession High. Headline industrial production jumped by 1.1% in November 2013, the strongest monthly showing since November, one year ago. That is suggestive of seasonal-adjustment issues. About half the monthly gain came from manufacturing, combined with an unusual upside swing in mining activity, and a surge in utility usage due to unseasonably-cold weather. October's headline monthly number was revised upward from an

initial 0.1% contraction to a 0.1% gain. Although the November monthly gain was strong, year-to-year growth slowed to 3.2%, from 3.4% in October.

The headline slowing of annual growth remains at a level consistent with a seriously-troubled broad economy, a pattern of year-to-year activity that remains “pre-recession,” if viewed in the context of normal economic times. The economy remains on the brink of falling into what formally should be recognized as renewed recession. Weaker data—revised and otherwise—remain likely in the months ahead, and in the upcoming annual benchmark revision scheduled for the end of March 2014.

New High for the Series. Nonetheless, the headline November reporting took the industrial production index to a new high, breaking the pre-recession peak activity of February 2008 for the first time. This “recovery” is not real, as discussed in the *Opening Comments* section. The use of understated inflation in deflating certain components compiled in the production index has resulted in overstated headline production growth. As shown in the “corrected” graph in that section, production remains well shy of an economic recovery.

Inconsistent Reporting with GDP. Also, industrial production widely is recognized as a coincident indicator of GDP activity. It is used, for example, by the recession-defining authority the National Bureau of Economic Research (NBER), for timing the onsets of recessions. What is unusual here is that the headline GDP purportedly has been fully recovered, in economic expansion, since second-quarter 2011. If the GDP data and the production numbers were of good quality, the series would be moving together, rather than the production numbers lagging GDP reporting by eleven quarters. As has been discussed frequently, and as will be covered anew in Friday’s (December 20th) *Commentary No. 585*, there are serious reporting flaws with both series, particularly the GDP.

Industrial Production—November 2013. The Federal Reserve Board released its estimate of seasonally-adjusted, November 2013 industrial production this morning, December 16th. In the context of an upside revision to October and a downside revision to September (among minor revisions to the other four months of production that were activity open to revision), headline monthly November production rose by 1.1% (up by 1.13% at the second decimal point) and was up by 1.31% for the month, net of prior-period revisions. October revised to a gain of 0.1% (a 0.10% gain at the second decimal point, previously a 0.14% contraction). September production revised to a gain of 0.5% (0.52%, previously 0.65%, initially a 0.57% gain).

The headline 1.1% gain in aggregate November production activity reflected a 0.6% gain in manufacturing, which was against a revised 0.5% (previously 0.3%) gain in October. Headline mining activity, including oil and gas activity, rose by 1.7% in November, versus a revised 1.5% (previously 1.6%) contraction in October, while ever-unstable utility activity jumped 3.9%, reflecting unusually-cold weather, versus a revised 0.3% (previously 1.1%) decline in October.

Further detail on the official numbers may be found on the site of ShadowStats affiliate www.ExpliStats.com.

Year-to-year growth in November 2013 slowed to 3.23%, versus a revised 3.42% (previously 3.24%) in October and a revised 3.19% (previously 3.26%, initially 3.19%) in September. Allowing for series volatility and special factors tied to weather-related utility distortions, annual growth has slowed to levels

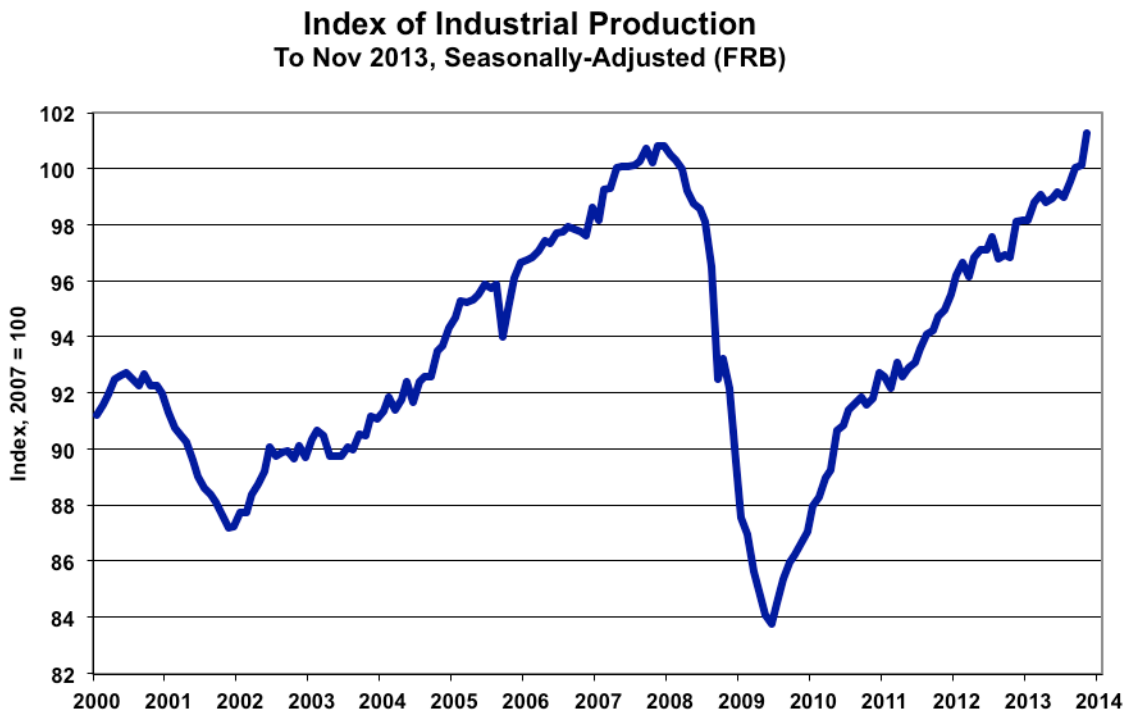
last seen during the mid-2008 economic collapse, and it remains consistent with annual growth patterns usually seen going into recession.

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

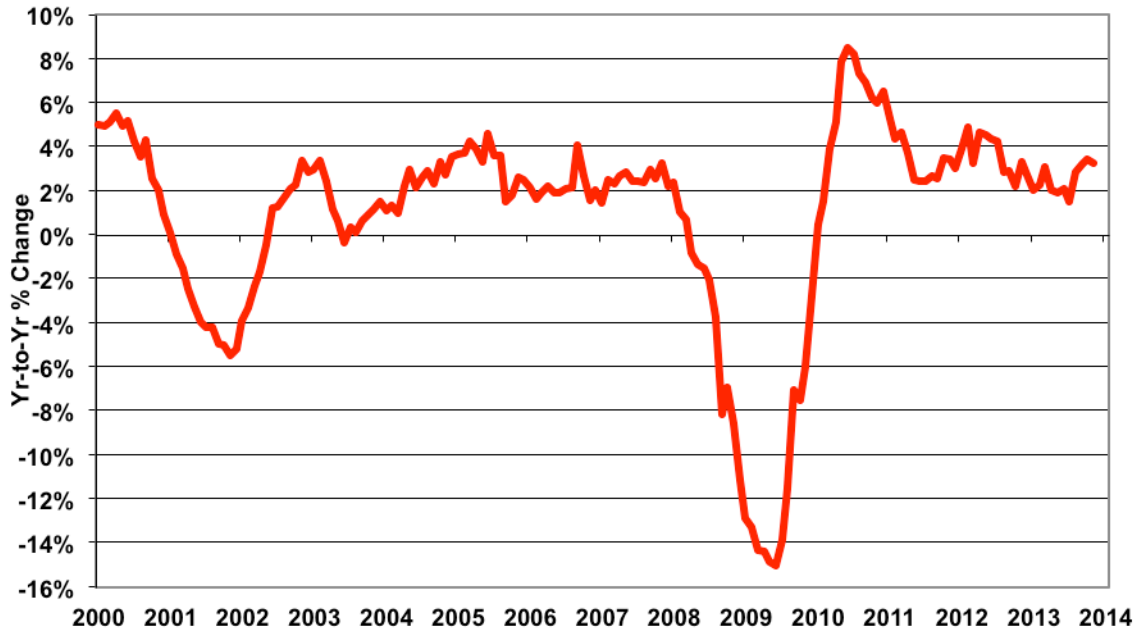
The second set of graphs shows the same data in historical context since World War II.

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

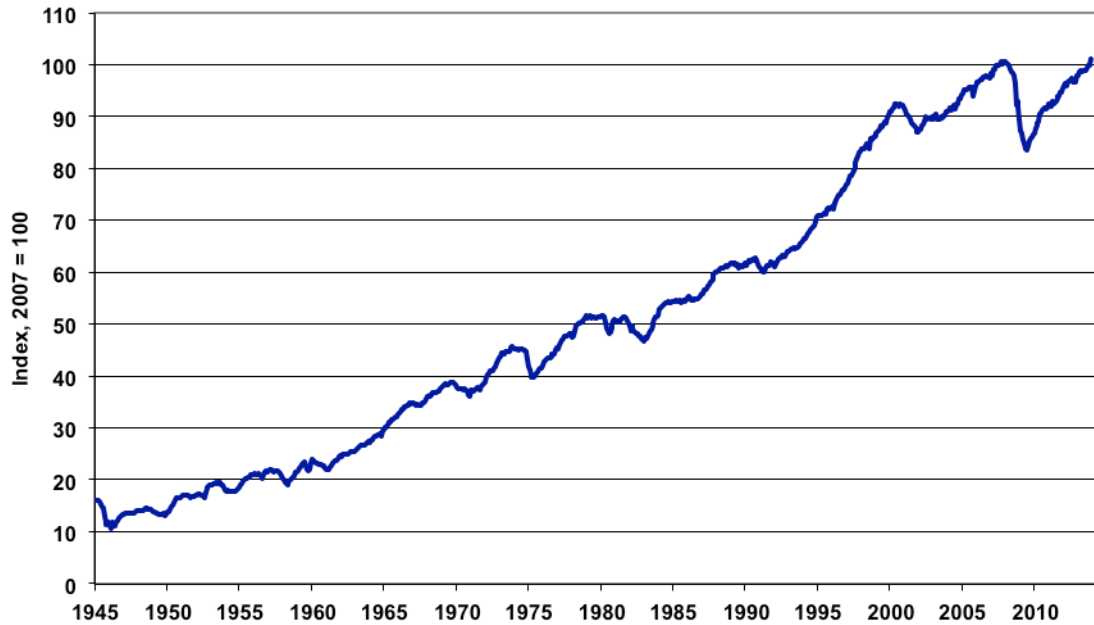
Although official production levels have moved higher since the June 2009 trough, the headline series just broke above its pre-recession high, by 0.5%, with the November 2013 reporting.



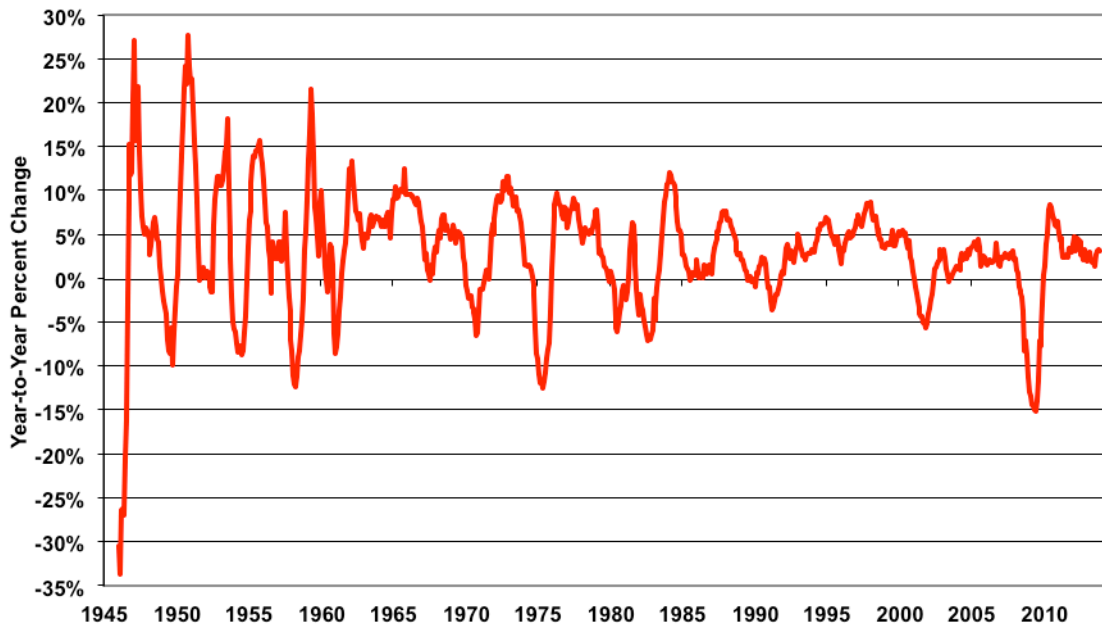
Industrial Production Year-to-Year % Change
To Nov 2013, Seasonally-Adjusted (ShadowStats, FRB)



Index of Industrial Production
To Nov 2013, Seasonally-Adjusted (ShadowStats, FRB)



Index of Industrial Production (Yr/Yr %)
To Nov 2013, Seasonally-Adjusted (ShadowStats, FRB)



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

PRODUCER PRICE INDEX—PPI (November 2013)

November PPI Hit Further by Weaker Energy Prices. As reported December 13th by the Bureau of Labor Statistics (BLS), the regularly-volatile, seasonally-adjusted finished-goods producer price index (PPI) for November 2013 declined by 0.1%. That was a contraction of 0.05% (down by 0.51% unadjusted) at the second decimal point. October's headline PPI had declined by 0.2% (0.15% at the second decimal point, down by 0.20% unadjusted). Energy prices pulled the aggregate, seasonally-adjusted November PPI lower, with declining oil and gasoline prices more than offsetting the impact of higher "core" inflation and unchanged food prices.

November's monthly contraction in finished goods inflation reflected a seasonally-adjusted 0.37% (2.32% unadjusted) monthly decline in energy costs, with unchanged monthly food costs (both seasonally- and

not-seasonally-adjusted unadjusted), and an adjusted 0.05% gain (unchanged on an unadjusted basis) for “core” inflation (net of food and energy).

Unadjusted and year-to-year, November 2013 total finished-goods PPI inflation rose to 0.72%, from 0.31% in October and September.

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, where the impact of higher energy costs usually is found, eventually, in most products and services. For November 2013, again, the seasonally-adjusted, month-to-month core PPI inflation gained 0.05% (unchanged on an unadjusted basis). Year-to-year, unadjusted November core finished-goods inflation eased to 1.31% from 1.36% in October. The usual graph comparing core-PPI year-to-year growth with the CPI-U for November will be published in tomorrow’s *Commentary No. 583*, which will cover the CPI release.

Intermediate and Crude Goods. Also reflecting weaker energy prices, seasonally-adjusted November 2013 intermediate-goods inflation was down by 0.5%, having been down by 0.4% in October, while November crude-goods inflation was negative by 2.6% for the month, following a 0.9% contraction in October.

Year-to-year inflation in unadjusted November 2013 intermediate goods fell by 0.5%, having been down by 0.8% in October. Year-to-year inflation in November 2013 crude goods was a negative 3.3%, versus a 0.5% contraction in October.

Experimental New Series. As discussed in prior PPI *Commentaries*, come the February 2014 reporting of the January 2014 PPI, the wholesale-inflation series will be recast, with a complete overhaul, redefinition and expansion (see the descriptive BLS link: [New PPI](#)). An estimate of inflation in wholesale services will be combined with something akin to the current finished goods measure to produce a broader-based, headline wholesale inflation number for goods and services, and the BLS has started publishing what the new series and reporting will look like, on an “experimental” basis.

The experimental, combined goods-and-services headline monthly number for the new PPI, as of November 2013, was a seasonally-adjusted monthly contraction of 0.09% (versus a gain of 0.18% in October). The new headline PPI combined a headline November contraction of 0.18% (down 0.18% in October) in “final demand goods” (the current-version headline November “finished goods” was down by 0.05%, down by 0.15% in October); with a headline 0.09% contraction in the November (a 0.28% gain in October) experimental “final demand services.” Final demand services include trade (change in margins for wholesalers and retailers), transportation and warehousing, among other categories.

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 up year-to-year by 1.02% in November 2013 (up by 1.20% in October), compared with the current-series headline “final goods” year-to-year inflation of 0.72% in November (0.31% for the October). Depressing the

current-series annual headline growth numbers are weak energy prices. Based on historical patterns, however, the new headline PPI inflation number generally should tend to run lower than the old headline PPI number.

A comprehensive analysis of the new versus old PPI, including its leading relationship—if any—with the CPI, will be published along with next month's PPI *Commentary*.

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. Data distortions resulting from the October government shutdown temporarily increase the risk for unusual reporting and revisions in most federal-government and related series.

In terms of monthly inflation reporting, energy-inflation-related seasonal-adjustment factors will be turning negative in December and likely were not positive enough in November to offset declines in unadjusted energy prices in the CPI. 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 ongoing U.S. fiscal-crisis 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:

Consumer Price Index—CPI (November 2013). The release by the Bureau of Labor Statistics (BLS) of the November 2013 CPI is scheduled for tomorrow, Tuesday, December 17th. The headline CPI-U is a fair bet to be flat or in a small contraction for November, down by 0.1% or so.

Average gasoline prices fell month-to-month in November 2013 by 2.9-percentage points, on a not-seasonally-adjusted basis, per the Department of Energy. The BLS seasonal adjustments will give gas prices a boost, but, as with last month, not enough to get them into positive territory. As last revised, an unadjusted 7.7% monthly decline in November 2012 gasoline prices was narrowed to a 6.0% contraction, with upside seasonal adjustments. Similar effects in the November 2013 number would still leave the adjusted number in negative territory, subtracting roughly 0.1-percentage point from the aggregate headline CPI-U number. Again, any upside surprise here would come from food prices or core inflation.

Year-to-year, CPI-U inflation would increase or decrease in 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%. For example, if the headline November 2013 CPI-U declined by 0.1%, the year-to-year inflation would be roughly 1.1%.

Housing Starts (September, October and November 2013). On Wednesday, December 18th, in catch-up reporting, the Census Bureau will publish its estimate on November residential construction, with initial reporting of September, October and November 2013 housing starts, the first estimate of housing-starts activity since before the government shutdown in October.

Any strength in starts likely will be in apartment building, not single-unit construction, as was seen in catch-up reporting in building permits. Further, unusual volatility and instabilities in reporting may be evident, as they were in catch-up reporting of September and October 2013 new home sales. Yet, the broad pattern of plunge and stagnation for housing activity in this economic cycle still should be obvious, as previously discussed (see *Commentaries* [No. 576](#) and [No. 578](#) for related near-term reporting).

Despite near-perpetual market expectations for strengthening activity in housing starts, reported month-to-month change likely will continue to be statistically-insignificant, in September through November, 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, given consumer-liquidity issues discussed in the *Opening Comments*.

Existing-Home Sales (November 2013). November 2013 existing-home sales are scheduled for release on Thursday, December 19th, by the National Association of Realtors. As is the developing circumstance for this highly volatile and unstable series, an entrenched pattern of stagnation likely has continued, with the report of monthly change in existing-home sales activity not likely to be meaningful, in either direction, particularly in the context of the prior-month's revision.

This series increasingly should continue to show a relationship with the weakening trend in single-unit housing starts, as will be updated, and as discussed in the previous *Housing Starts* section. New home sales for November are due for release on December 24th, see *Commentaries* [No. 574](#) and [No. 578](#).

Gross Domestic Product—GDP (Third-Quarter 2013, Third-Estimate, Second Revision). The Bureau of Economic Analysis has scheduled release of the third estimate of third-quarter 2013 GDP for Friday, December 20th. Market expectations appear to be for little more than statistical noise in this second revision, with the headline growth rate holding at 3.6%.

Odds favor a downside revision, though, based on data for trade, inventories and construction spending that were released subsequent to the information incorporated into the second estimate of the GDP. The new data had negative-revision implications for the third estimate, second revision to third-quarter GDP. See [Commentary No. 579](#) for further detail.
