

**COMMENTARY NUMBER 583**  
**November Consumer Price Index, Real Retail Sales and Earnings**  
**December 17, 2013**

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**Year-to-Year Inflation Rose in November, Despite Weak Monthly Numbers**  
**November Annual Inflation: 1.2% (CPI-U), 1.1% (CPI-W), 8.8% (ShadowStats)**  
**Real Retail Sales Gained 0.6% in November; Recession Signal Remained Intact**  
**Consumers Constrained by Real-Earnings Issues**

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*PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Wednesday, December 18th, covering September, October and November housing starts; followed by a Commentary 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 (December 17th) missive covers the detail from the November 2013 Bureau of Labor Statistics (BLS) survey of consumer prices and related inflation-adjusted series. A more-comprehensive economic summary and review of November data 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 tomorrow's three-months of catch-up reporting on housing starts.

The monthly graphs and discussion of gold, silver and oil prices, and the U.S. dollar versus the Swiss franc, which usually accompany *CPI Commentary*, follow at the end of the *Hyperinflation Watch* section.

### **November 2013 Consumer Price Index—Energy Prices Again Dominated Inflation Reporting.**

Although the headline consumer inflation numbers were flat month-to-month in November, year-to-year inflation generally rose versus October, with annual November 2013 inflation at 1.24%, versus 0.96% in October. That annual increase resulted from monthly inflation in November 2012 being more negative than in the current period.

Volatile oil and gasoline prices continued to dominate the monthly and annual swings in consumer inflation. Going forward, risks generally favor higher energy inflation driving the headline consumer inflation indices higher. Energy prices generally have an inverse relationship to U.S. dollar strength. For example, a weak U.S. dollar against other currencies tends to put upside pressure on oil and gasoline prices. Post-2008 bouts of dollar weakness generally have been triggered by the ongoing 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 and other supply and demand issues.

The U.S. dollar recently has seen some minimal selling pressure. That pressure likely will intensify sharply in the near future, with “tapering” (if any) by the Fed not likely to be of substance. Underlying systemic-liquidity and economic circumstances actually favor intensified quantitative easing. Combine that with the lack of a meaningful effort by the federal government to address fiscal imbalances and the long-term sovereign solvency issues of the United States; with shifting sentiments on the deteriorating political environment in Washington; and with a still-weakening economy; and circumstances are set for a rapidly intensifying sell-off of the U.S. dollar. Again, as the U.S. dollar comes under heavy selling pressure, the weakening U.S. currency rapidly should be translated into rising oil-price-related inflation.

***New Approach to COLA Adjustments?*** Separately, the recently-announced, two-year budget deficit deal (see [Commentary No. 581](#)) cut cost-of-living adjustments (COLA) for certain military retirees by one-percent. The Congressional negotiators did not use the Chained-CPI, as had been threatened otherwise for Social Security, etc. Where the goal had been for the chained series to cut COLAs by about one-percent on annual basis, versus existing calculations, the approach taken here is more straightforward than the subterfuge otherwise planned for the Chained-CPI. This approach, though, does nothing to expose the prior subterfuge used in artificially reducing current headline CPI inflation reporting of recent decades, as discussed in the [Public Comment on Inflation Measurement](#).

***CPI-U.*** The headline, seasonally-adjusted CPI-U for November 2013 was “unchanged” at the first decimal point, up by 0.03% at the second decimal point (down by 0.20% unadjusted). That followed an October headline decline of 0.1% (0.06% at the second decimal point) month-to-month, which was down by 0.26% unadjusted. The November headline reporting was slightly below market expectations. Not seasonally adjusted, November 2013 year-to-year inflation for the CPI-U rose to 1.24%, versus 0.96% in October.

Encompassed by the rounded, monthly “unchanged” headline growth for November 2013 CPI-U (down by 0.2% unadjusted), aggregate energy inflation in November was down by 1.0% for the month (an unadjusted 2.3% contraction). In the other major CPI sectors, food inflation was up by 0.1% for the month (unchanged unadjusted), while “core” inflation rose by an adjusted 0.2% (unchanged unadjusted).

***CPI-W.*** The November 2013 headline, seasonally-adjusted CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, was unchanged for the month at the second decimal point (down by 0.26% unadjusted), versus a month-to-month seasonally-adjusted contraction of 0.11% (down by 0.35% unadjusted) in October. Unadjusted, November 2013 year-to-year CPI-W inflation was 1.12%, up from 0.77% in October.

***Chained-CPI-U.*** The initial reporting of year-to-year inflation for the November 2013 C-CPI-U was 1.14%, versus 0.95% in October.

***Alternate Consumer Inflation Measures.*** The ShadowStats-Alternate Consumer Inflation Measure (1990-Base) annual CPI inflation was roughly 4.7% in November, versus 4.4% in October. The ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, rose to about 8.8% in November 2013, versus 8.5% in October.

***Real (inflation-Adjusted) Retail Sales—November 2013.*** As discussed in [Commentary No. 581](#), there has been no change in the underlying consumer-liquidity fundamentals. 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. 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.

That said, (again, discussed in [Commentary No. 581](#)), the nominal gains in headline retail sales for November of 0.68% and for October of a revised 0.61%, were before accounting for inflation. Based on today’s reporting of a 0.03% increase in the November 2013 CPI-U, seasonally-adjusted real (inflation-adjusted) retail sales showed a monthly gain of 0.65% (0.6% rounded) in November, versus a revised 0.67% monthly gain in October.

Year-to-year, November 2013 real retail sales rose at an annual pace of 3.43%, versus a revised 3.15% in October, as graphed in the *Reporting Detail* section. In normal economic times, the recent levels in annual real growth would be signaling a pending recession. In the current circumstance, this signal likely will serve as an indicator of a renewed downturn in broad economic activity.

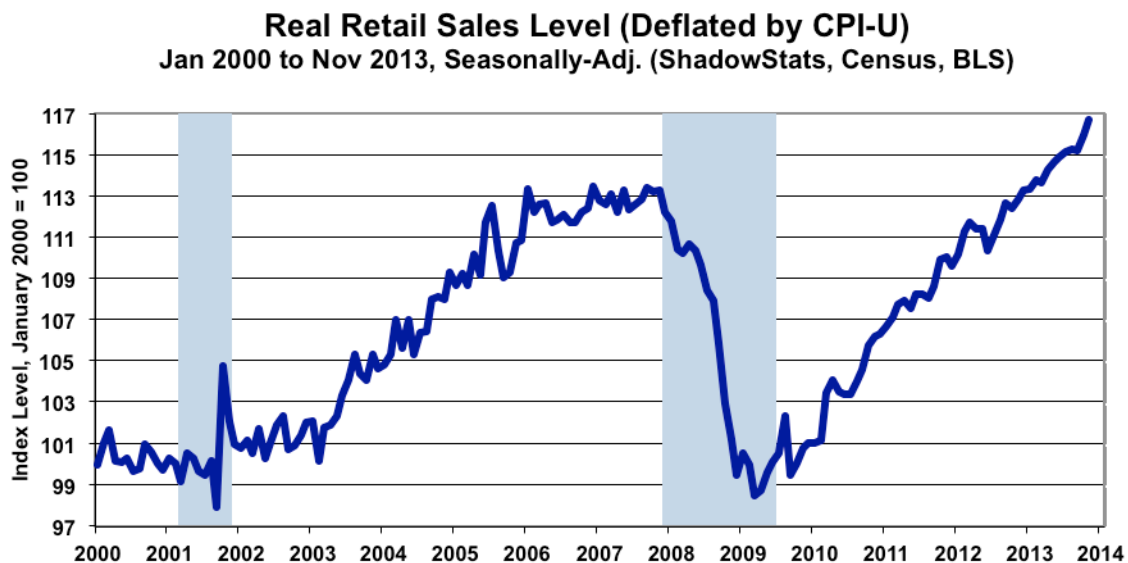
As official consumer inflation resumes its upturn in the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by continued real earnings difficulties, discussed in the next section—these data should trend meaningfully lower, in what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

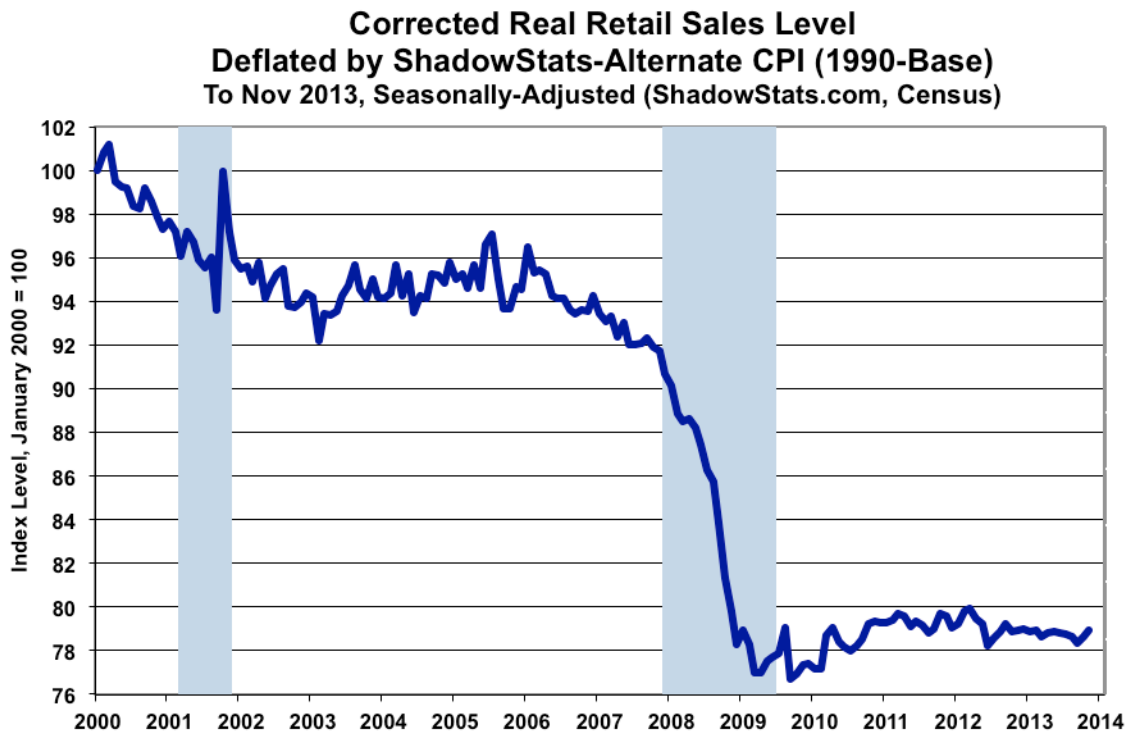
***Real Retail Sales “Recovery” Does Not Confirm Broad Economic Rebound.*** The gross domestic product (GDP) expanded beyond pre-recession levels, eleven quarters ago, starting in second-quarter

2011, and it has kept rising, well beyond the reported activity of any other series, including real retail sales and industrial production. There is no other major economic series showing the GDP's pattern of both official, full recovery and extensive new growth. While real retail sales tend to lead the GDP, the "recovery" in retail sales reporting has lagged the purported GDP recovery by two years. In like manner, the industrial production measure—a coincident GDP indicator—just broke above its pre-recession high in November 2013 (see [Commentary No. 582](#)).

The false recoveries in the real retail sales series, industrial production and GDP all are due to the understatement of the rate of inflation used in deflating those series. Deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth (see [Hyperinflation 2012](#) and [Special Commentary \(No. 485\)](#)). 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 November 2013 CPI-U and nominal retail sales releases. The CPI-U, however, understates inflation (see the [Public Comment on Inflation](#)), with the effect of overstating inflation-adjusted growth. Instead of being deflated by the CPI-U, the "corrected" real retail numbers in the second graph use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation.





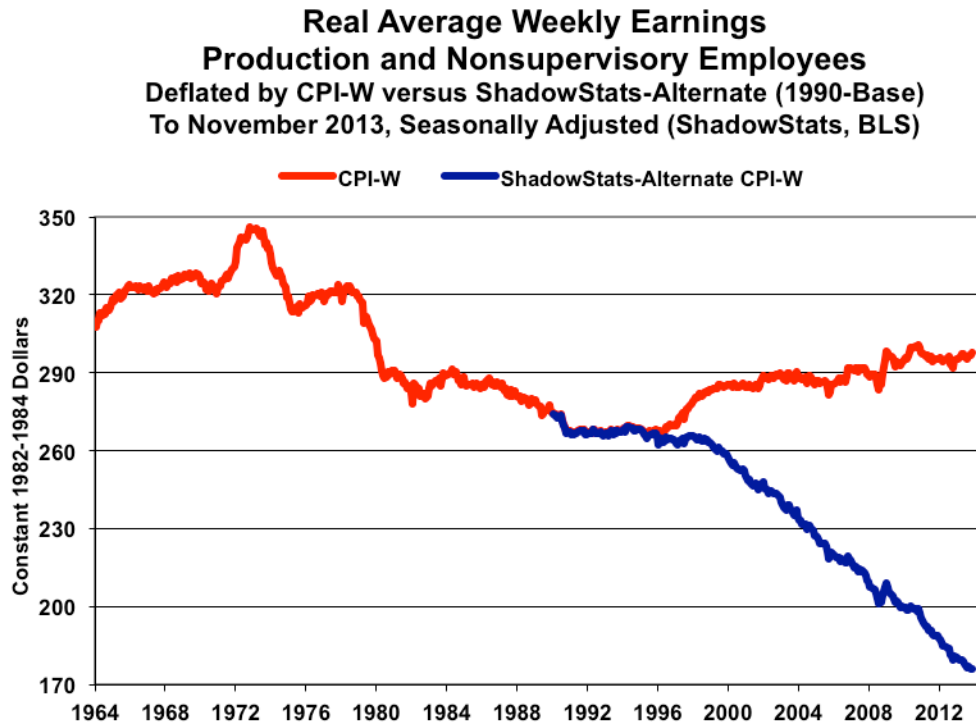
With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation, consistent with patterns seen in real median household income, consumer confidence measures, unemployment and housing statistics. A topping out in late-2011 and early-2012 reverted to renewed 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. The renewed contraction has been deepening, although the October and November 2013 sales numbers ticked higher.

***Real Average Weekly Earnings—November 2013.*** Headline real average weekly earnings in the production and nonsupervisory employees series—the only earnings series for which there is a meaningful history—rose by 0.45% (0.5% rounded) for the of November (deflated by the CPI-W), following a revised 0.04% (previously 0.09%) decline in October.

Unadjusted and year-to-year, November real earnings rose by a slower 1.05% pace, versus a revised 1.56% gain in October. 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 October detail are due to the instabilities in the BLS monthly surveys.

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

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



*[For further detail on the November consumer price index (CPI), real retail sales and earnings, see the Reporting Detail Section.]*

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## 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.



**No Change.** The *Summary Hyperinflation Outlook* is as it was last updated in the prior *Commentary No. 582*. Publication plans for *Hyperinflation 2014—The End Game*, which will be a fully-updated and expanded version of [Hyperinflation 2012](#), 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 Yellen, 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.

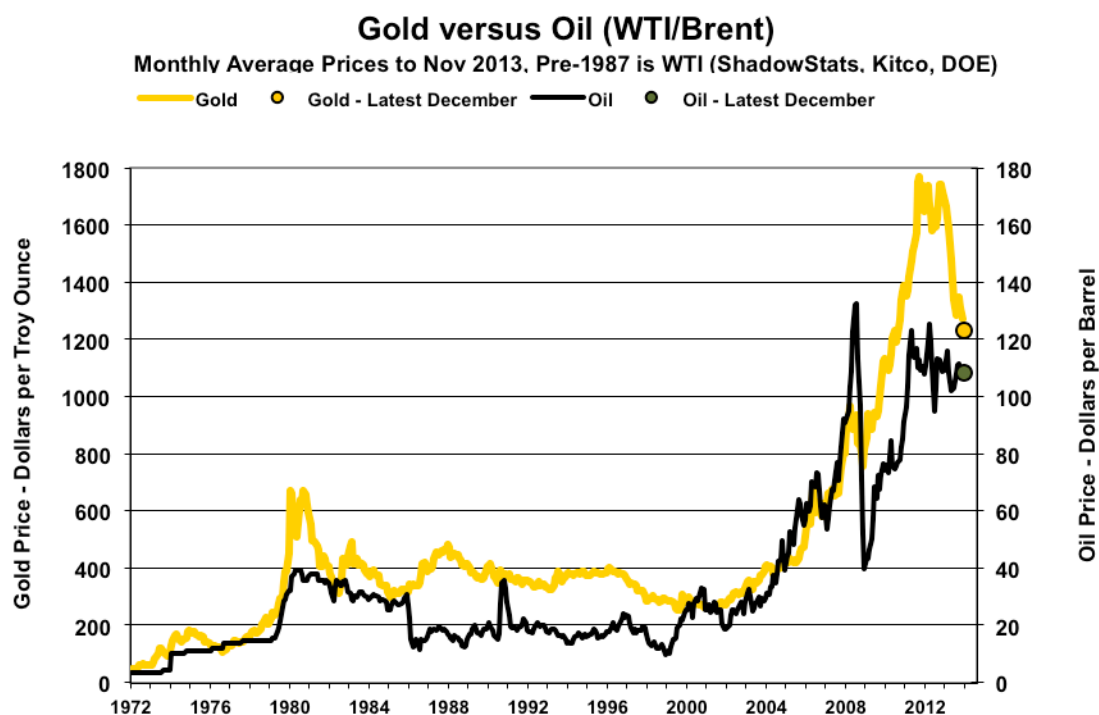
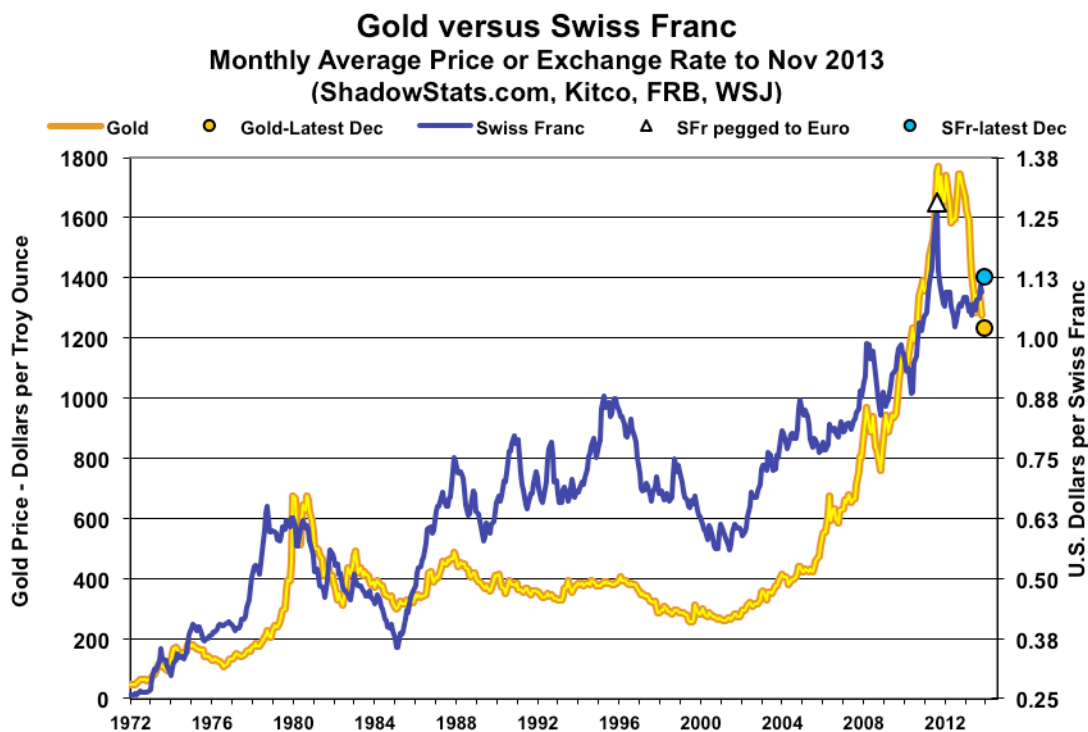
This should become increasingly evident as the disgruntled global markets move sustainably against the U.S. dollar, a movement that may have begun. As discussed earlier, a dollar-selling panic is likely in the next several months, with its effects and aftershocks setting hyperinflation into action in 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.

**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, with the dollar showing minor weakness. 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 circumstances in the Middle East, but oil prices face significant, further upside pressure as the U.S. dollar comes under heavier selling pressure.

Those controlling the U.S. government have reached a two-year budget deal without any effort to address the Nation's long-term sovereign solvency issues. Despite mounting speculation of an imminent pullback in the Fed's QE3 quantitative easing, any "tapering" should be minimal, if any there is any change in Fed policy. Risks favor potential greater Fed accommodation, in the year ahead, tied to negative systemic-liquidity and economic reality. Deteriorating political conditions in Washington, and intensifying U.S. economic weakness, all in combination with the other factors, should be poison to the markets. The U.S. dollar remains a good bet to be an early casualty; precious metals and oil prices should benefit.

The "latest December" points in the following graphs reflect conditions as of roughly mid-day New York time, December 17th.





## REPORTING DETAIL

### CONSUMER PRICE INDEX—CPI (November 2013)

**Energy Prices Continued to Dominate Inflation Reporting.** Although the headline consumer-inflation numbers were flat month-to-month in November, year-to-year inflation generally rose versus October, with annual November 2013 inflation at 1.24%, versus 0.96% in October. That annual increase resulted from monthly inflation in November 2012 being more negative than in the current period.

Volatile oil and gasoline prices continued to dominate the monthly and annual swings in consumer inflation, yet 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 factors, of course, such as political developments in the Middle East, supply disruptions, etc.

The U.S. dollar recently has seen some minimal selling pressure. That pressure likely will intensify sharply in the near future, with Fed tapering (if any) likely not to be meaningful. Underlying systemic-liquidity and economic circumstances actually favor intensified quantitative easing. Combine that with the lack of a meaningful deal to address federal fiscal imbalances and the long-term sovereign solvency issues of the United States, shifting sentiments with the ongoing deteriorating political environment in Washington, and a still-weakening economy, 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 perceived 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.*



**CPI-U.** The Bureau of Labor Statistics (BLS) reported this morning, December 17th, that the headline, seasonally-adjusted CPI-U for November 2013 was “unchanged” at the first decimal point, up by 0.03% at the second decimal point (down by 0.20% unadjusted). That followed a headline October decline of 0.1% (0.06% at the second decimal point) month-to-month, which was down by 0.26% unadjusted. The November headline reporting was slightly below market expectations.

The BLS used a more-severe estimate of falling gasoline-prices in November—a not-seasonally-adjusted drop of 3.3%, instead of the 2.9% decline indicated by the more-comprehensive, industry-based surveying of the Department of Energy. With some offset by positive seasonal adjustments, the adjusted gasoline prices were down by 1.6%. Seasonal adjustments also were positive for food prices and for the headline “core” inflation.

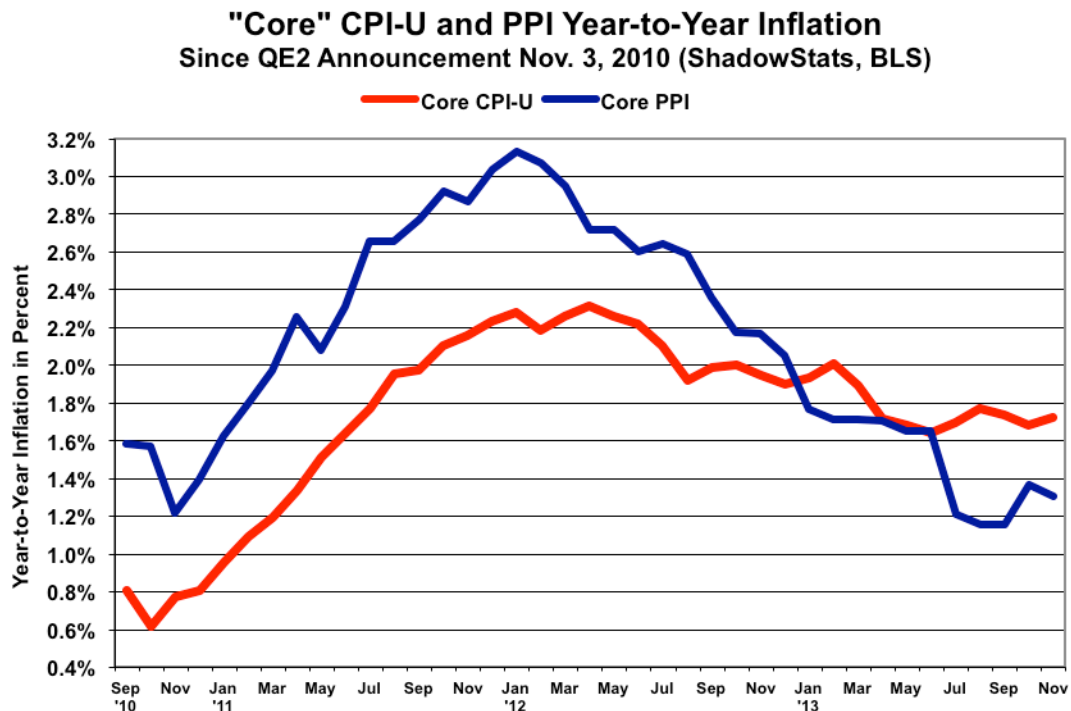
Encompassed by the rounded, “unchanged” headline November 2013 CPI-U (down by 0.2% unadjusted), aggregate energy inflation in November was down by 1.0% for the month (an unadjusted 2.3% contraction). In the other major CPI sectors, food inflation was up by 0.1% for the month (unchanged unadjusted), while “core” inflation rose by an adjusted 0.2% (unchanged unadjusted).

Not seasonally adjusted, November 2013 year-to-year inflation for the CPI-U rose to 1.24%, versus 0.96% in October.

Year-to-year, CPI-U inflation would increase or decrease in next month’s December 2013 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted and negligible 0.03% increase in the monthly inflation reported for December 2012. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for December 2013, the difference in December’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the November 2013 annual inflation rate of 1.24%.

**Core CPI-U.** Seasonally-adjusted November 2013 “core” CPI-U inflation (net of food and energy inflation) rose by 0.15% (by 0.03% unadjusted), versus a seasonally-adjusted monthly gain of 0.12% (0.16% unadjusted) in October.

Twenty-four of the last thirty-six months have shown rising year-to-year, or annual, core CPI-U inflation, with the year-to-year core CPI inflation increasing to 1.72% in November 2013, versus 1.68% in October. As shown in the accompanying graph, the CPI core annual inflation has held above the annual rate of core inflation in the PPI finished goods number since July 2013 (see [Commentary No. 582](#)).



**CPI-W.** The November 2013 headline, seasonally-adjusted CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, was unchanged for the month at the second decimal point (down by 0.26% unadjusted), versus a month-to-month seasonally-adjusted contraction of 0.11% (down by 0.35% unadjusted) in October.

Unadjusted, November 2013 year-to-year CPI-W inflation was 1.12%, up from 0.77% in October.

**Chained-CPI-U.** The initial reporting of year-to-year inflation for the November 2013 C-CPI-U was 1.14%, versus 0.95% in October.

The recently-announced, two-year budget deficit deal (see [Commentary No. 581](#)) cut cost-of-living adjustments (COLA) for certain military retirees by one-percent. The Congressional negotiators did not use the Chained-CPI as had been threatened otherwise for Social Security, etc., where the idea had been that the chained series would cut COLAs by about one-percent on an annual basis, versus existing calculations. The approach taken is more open about what is being done, as opposed to the prior subterfuge of trying to pass off a fully-substitution-based CPI as a legitimate COLA measure.

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 considerations of making the chained index the new cost-of-living-adjustment (COLA) measure for programs such as Social Security, the system cannot be made workable as a concept for using a substitution-based CPI measure as a COLA, without the new index becoming even more of a sham than it already is. 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 possible 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 4.7% in November, versus 4.4% in October.

The ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, rose to about 8.8% (8.81% for those using the second decimal point) in November 2013, versus 8.5% in October.

*[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).*

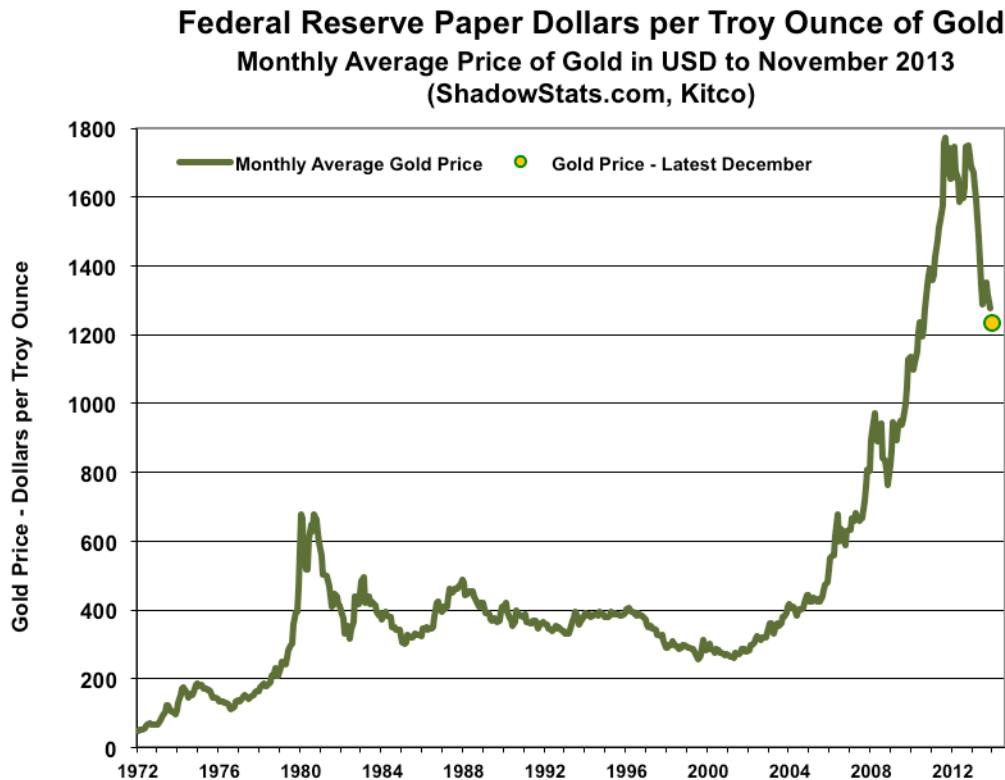
*Over the decades, the BLS has altered the meaning of the CPI from being a measure of the cost of living needed to maintain a constant standard of living, to something that neither reflects the constant-standard-of-living concept nor measures adequately what most consumers view as out-of-pocket expenditures. 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 \$2,546 per troy ounce, based on November 2013 CPI-U-adjusted dollars, and \$10,360 per troy ounce, based on November 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 November 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 November 2013 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

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

effectively have compensated fully for the loss of purchasing power of the dollar based on the ShadowStats-Alternate Consumer Price Measure (1980-Methodologies Base).

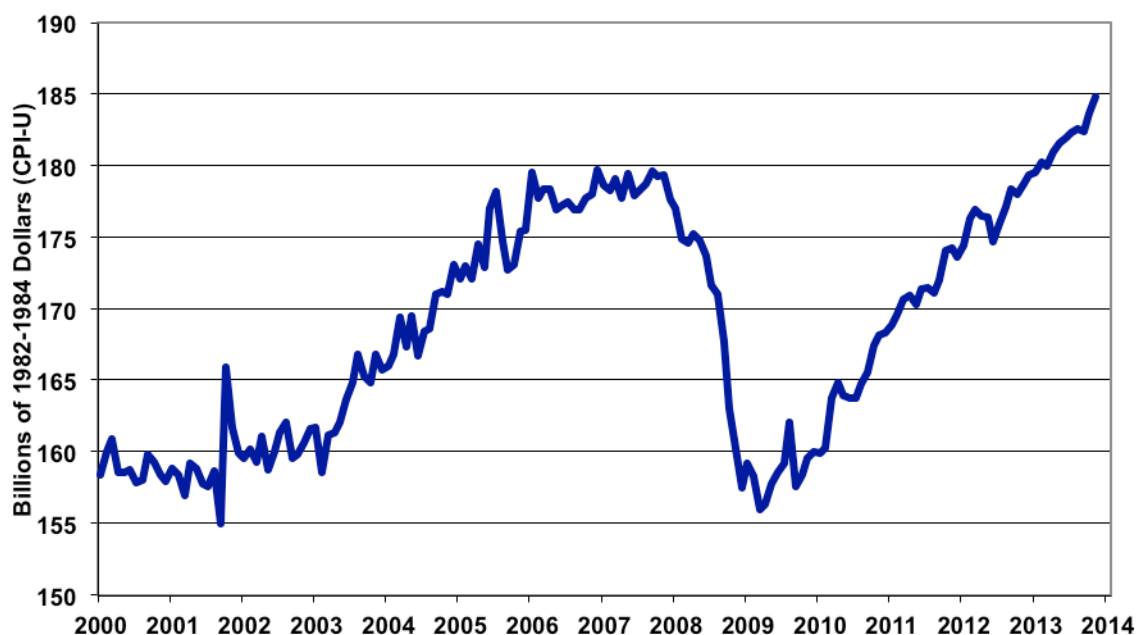


***Real (Inflation-Adjusted) Retail Sales—November 2013.*** As covered in [Commentary No. 581](#), the nominal gains in headline retail sales for November of 0.68% and for October of a revised 0.61% (previously 0.41%) were before accounting for inflation. Based on today’s reporting of a 0.03% increase in the November 2013 CPI-U, seasonally-adjusted real (inflation-adjusted) retail sales showed a monthly gain of 0.65% (rounds to 0.6%) in November, versus a revised 0.67% (previously 0.47%) monthly gain in October.

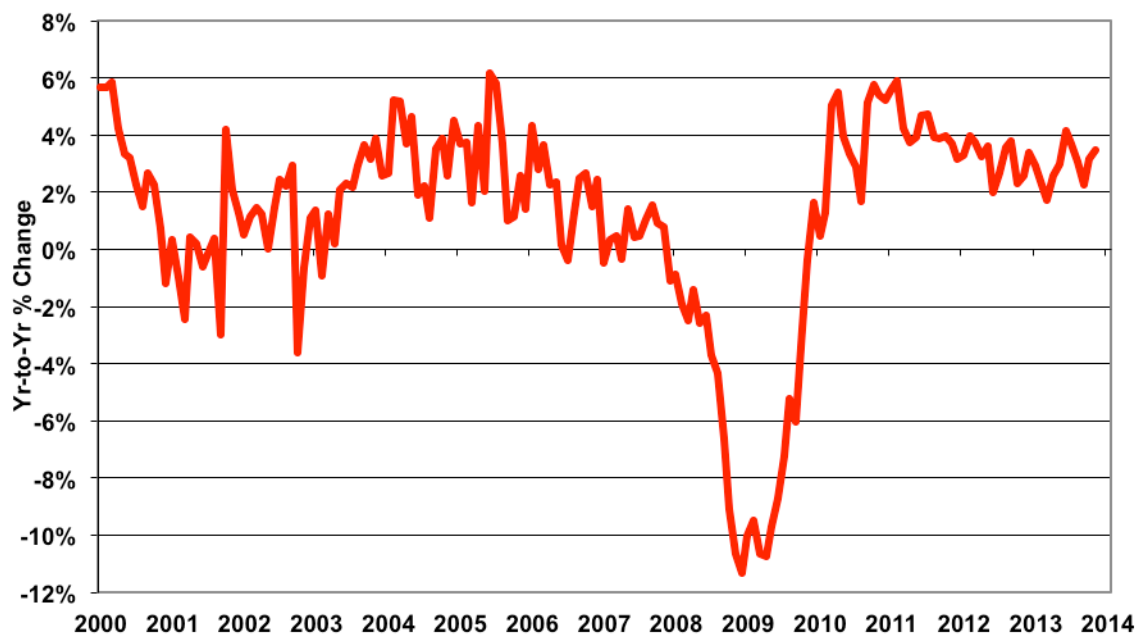
Year-to-year, November 2013 real retail sales rose at an annual pace of 3.43%, versus a revised 3.15% (previously 2.91%) in October, as seen in the second graph following. In normal economic times, the recent levels in annual real growth would be signaling a pending recession. In the current circumstance, this signal likely will serve as an indicator of a renewed downturn in broad economic activity.

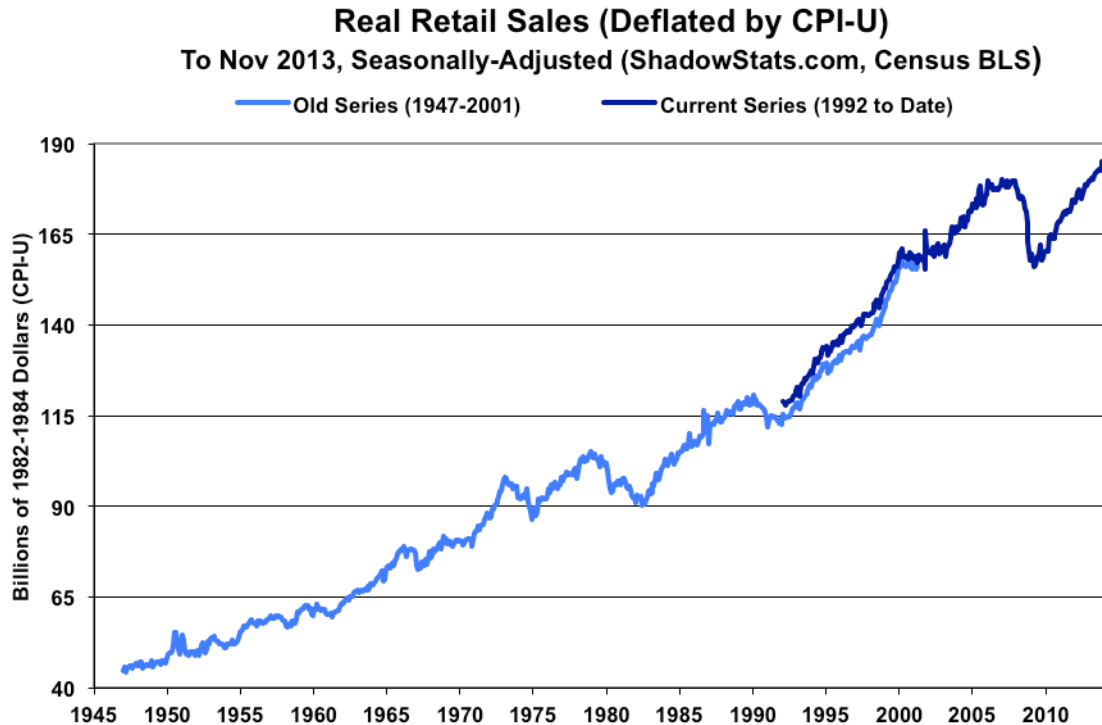
***Real Retail Sales “Recovery” Does Not Confirm Broad Economic Rebound.*** The first of the three following graphs shows the level of real retail sales activity (deflated by the CPI-U) since 2000, and the second graph shows year-to-year percent change for the same period.

**Real Retail Sales (Deflated by CPI-U)**  
Jan 2000 to Nov 2013, Seasonally-Adj. (ShadowStats, Census, BLS)



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





The third graph (immediately-preceding) shows the level of real retail sales (and its predecessor series) in full post-World War II detail. With November 2013 reporting, the nascent expansion of headline real retail sales above pre-recession levels, which began in February 2013 and faltered in September, resumed in October and November. Where initial real changes in monthly retail sales generally have been flat, with subsequent upside revisions, the pattern has become one of a slowing 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 and industrial production. There is no other major economic series showing the GDP's pattern of both official, full recovery and extensive new growth. While real retail sales tend to lead the GDP, the "recovery" in retail reporting lagged the purported GDP recovery by two years. In like manner, the industrial production measure—a coincident GDP indicator—just broke above its pre-recession high in November 2013 (see [Commentary No. 582](#)).

The apparent "recovery" in the real retail sales series and industrial production (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 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.

As discussed in [Commentary No. 581](#), there has been no change in the underlying consumer-liquidity fundamentals. There is nothing that would support a sustainable turnaround in retail sales, personal consumption, housing or general economic activity. There never was a broad economic recovery, and there is no recovery underway, just general bottom-bouncing that is turning down anew.

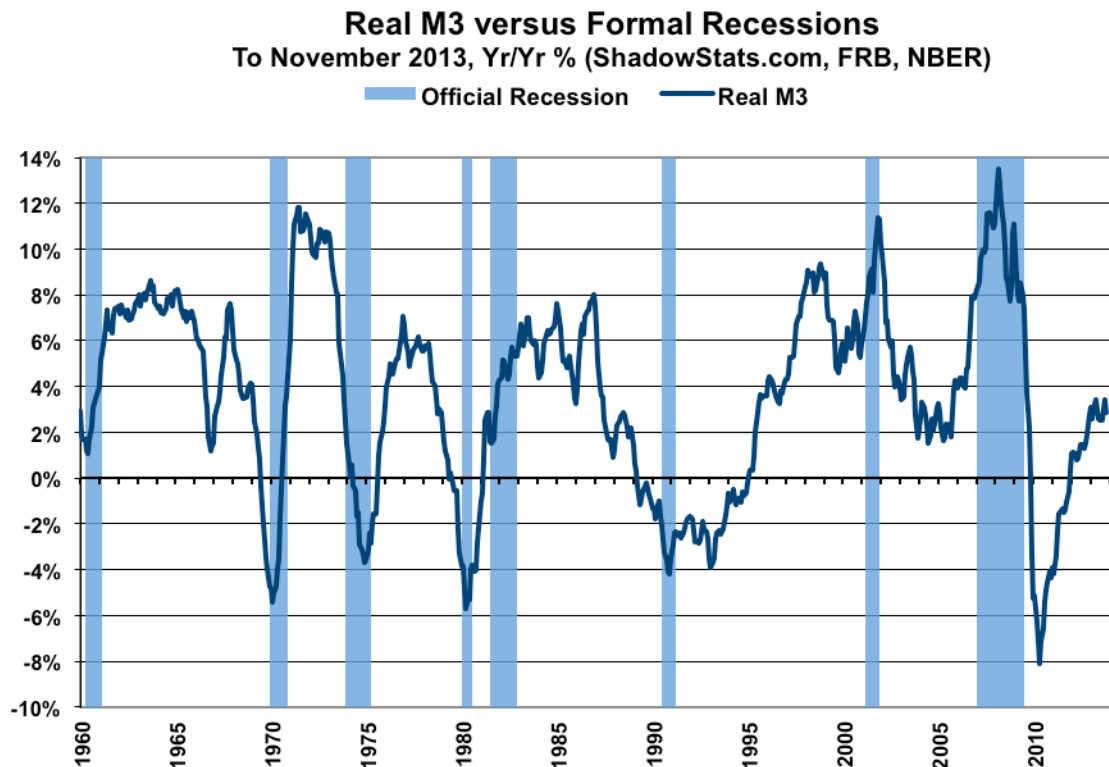
As official consumer inflation resumes its upturn in the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by continued real earnings difficulties, discussed in the next section—these data should trend meaningfully lower, in what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

***Real (Inflation-Adjusted) Average Weekly Earnings—November 2013.*** Coincident with today's November 2013 CPI release, the BLS also published real average weekly earnings for November. 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 up by 0.45% (0.5% rounded) for the month, following a revised 0.04% (previously 0.09%) decline in October.

Unadjusted and year-to-year, November real earnings rose by a slower 1.05% pace, versus a 1.56% (previously 1.46%) gain in October. 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 October 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—November 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 November 2013 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for November 2013 declined to 2.8% from an unrevised 3.4%. The slowing in the November annual growth rate for real M3 reflected a combination of a lower nominal annual growth rate in M3 and a higher 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.

## 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. They were not positive enough in November to offset declines in unadjusted energy prices fully in the PPI and 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:**

**Housing Starts (September, October and November 2013).** Tomorrow, 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 estimates 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.

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