

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

COMMENTARY NUMBER 590
December Retail Sales, Updated Consumer Liquidity Indicators
January 14, 2014

**Statistically-Insignificant 0.2% Gain in December Retail Sales
Likely Was Flat-to-Down Net of Inflation**

**December Activity Was Below Initial November Reporting
With Earlier Numbers Revised Lower**

Annual Sales Growth Continued Its Signal for “New” Recession

Consumers Constrained by Severe Structural Liquidity Problems

PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Wednesday, January 15th, covering December PPI and previewing the new headline series that debuts next month, followed by Commentaries on the 16th (December CPI, real retail sales and earnings) and the 17th (December housing starts and industrial production).

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Early December Data Continued to Show Slowing Activity. With December the dominant month of the year for the retail sales industry, the month’s headline nominal (not-adjusted-for inflation) gain of just 0.2% and related, downside prior-period revisions were bad news. The reporting was indicative of faltering broad economic activity and of a liquidity-impaired consumer.

The headline sales gain likely will become unchanged or be in contraction, net of adjustment for inflation's impact. Further, the minimal upside headline growth was only after downside revisions to reported activity in November and October. November's initial growth of 0.7% revised to 0.4%, but the revised growth would have been 0.3%, except for a downside revision as well in October activity. As a result, the headline, nominal reporting for December sales was below the initially-reported activity level for November. Separately, year-to-year December growth slowed sharply, both before and after inflation adjustment, with real growth likely remaining deep in recession-signal territory. More-complete detail follows in these *Opening Comments* and in the *Reporting Detail* section.

Catch-up in today's retail sales reporting increasingly was in line with the continued, severe liquidity constraints on the consumer. The latest liquidity indicators also are covered in these *Opening Comments*.

Today's (January 14th) *Commentary* is brief, reviewing just the release of nominal December retail sales and the latest detail on key indicators of consumer liquidity. In tomorrow's January 15th *Commentary*, the December PPI will be covered, along with a preview of what the redefined and revamped wholesale inflation series will look like next month. The January 16th missive will cover the release of the December CPI and related deflated series, such as real (inflation-adjusted) retail sales and earnings. The January 17th *Commentary* will cover December housing starts and industrial production, along with a summary of December economic reporting up through that time.

December 2013 Retail Sales—Slowing Nominal Growth Amid Downside Revisions and Rising Inflation. In the context of relatively large downside revisions to prior reporting, and not adjusted for consumer inflation, today's (January 14th) report on December 2013 retail sales—issued by the Census Bureau—indicated a statistically-insignificant, seasonally-adjusted monthly increase of 0.2%. That was a 0.23% gain at the second decimal point, and a contraction of 0.10% before prior-period revisions. The December increase followed a revised, month-to-month gain of 0.44% in November.

Year-to-year, December 2013 retail sales rose by a statistically-significant 4.10%, versus a revised 4.22% annual gain in November. Prior-period revisions, one year ago, reflected little more than the unstable monthly revisions in the concurrent-seasonal-adjustment process, where revised estimates are reported and shown only selectively. Indeed, the pattern of growth here remains distorted by the resulting lack of fully-consistent, seasonally-adjusted numbers being published by the Census Bureau.

Real (Inflation-Adjusted) Retail Sales. The headline 0.23% nominal monthly gain in monthly December retail sales was before accounting for inflation. Real retail sales for December (adjusted for inflation), will be reported along with the headline estimate of consumer inflation, the December CPI-U, in the January 16th *Commentary No. 592*. Per the discussion in the *Week Ahead* section, the headline December CPI-U likely will show positive headline inflation of 0.2%, or more, which offers a strong chance of headline real retail sales being flat-to-minus for the month of December.

Structural Liquidity Problems Continue to Constrain the Consumer. Major, structural liquidity problems remain serious constraints on consumer activity, as discussed frequently in these *Commentaries* and as indicated in the updated graphs that follow.

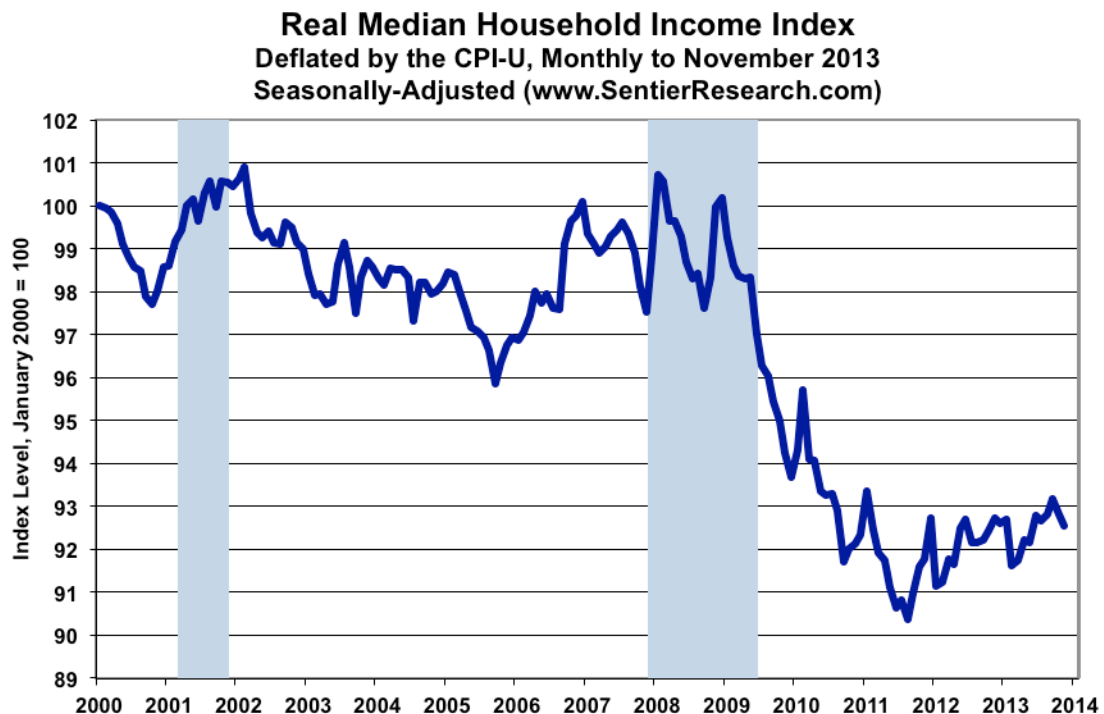
Real median household income by month, as published by www.SentierResearch.com, showed continued income stagnation in November 2013, near the cycle-low for the series (see first graph). As the GDP purportedly was booming, in recovery, in mid-2009, household income plunged to new lows. Deflated by the CPI-U, the annual series published by the Census Bureau showed recent real median household income to be at levels seen in the late-1960s and early-1970s (see [Commentary No. 558](#)).

The second graph following shows consumer credit outstanding (Federal Reserve Board), updated through November 2013, where practically all the post-2008-Panic growth in consumer credit has been in federally-backed student loans, instead of in bank lending to the consumer that would tend to fuel consumption of washing machines, etc., potentially helping to offset lack of income growth.

The last two graphs reflect the regularly-volatile consumer confidence (Conference Board) and consumer sentiment (University of Michigan) series through December 2013. Current levels in both series remain deep in traditional recession territory. The pattern here, as with household income, has been one of collapse and stagnation, as opposed to economic collapse and recovery indicated in the faulty GDP series.

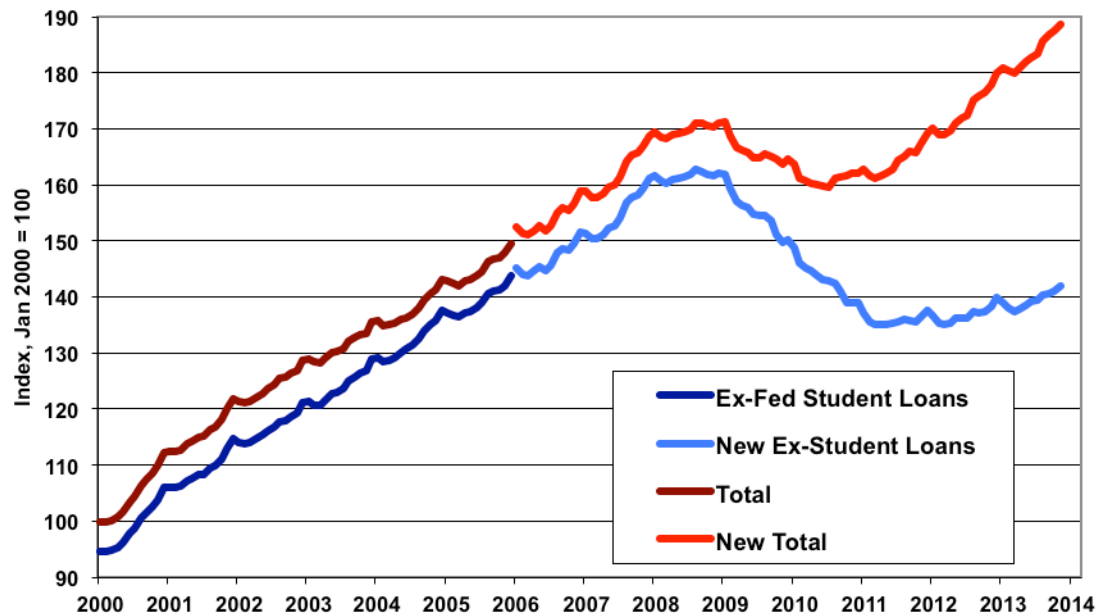
Without growth in real income; without the ability or the will to expand debt meaningfully; and without the confidence to take on new debt, where possible; the consumer simply cannot sustain real growth in retail sales, housing or in the dominant personal-consumption measure in GDP. There is no broad recovery that is pending or underway.

In like manner, the consumer lacked the ability to drive the purported post-June 2009 full-fledged economic recovery and renewed expansion shown in GDP reporting. That recovery was a statistical illusion; it never happened (see [Commentary No. 585](#)).



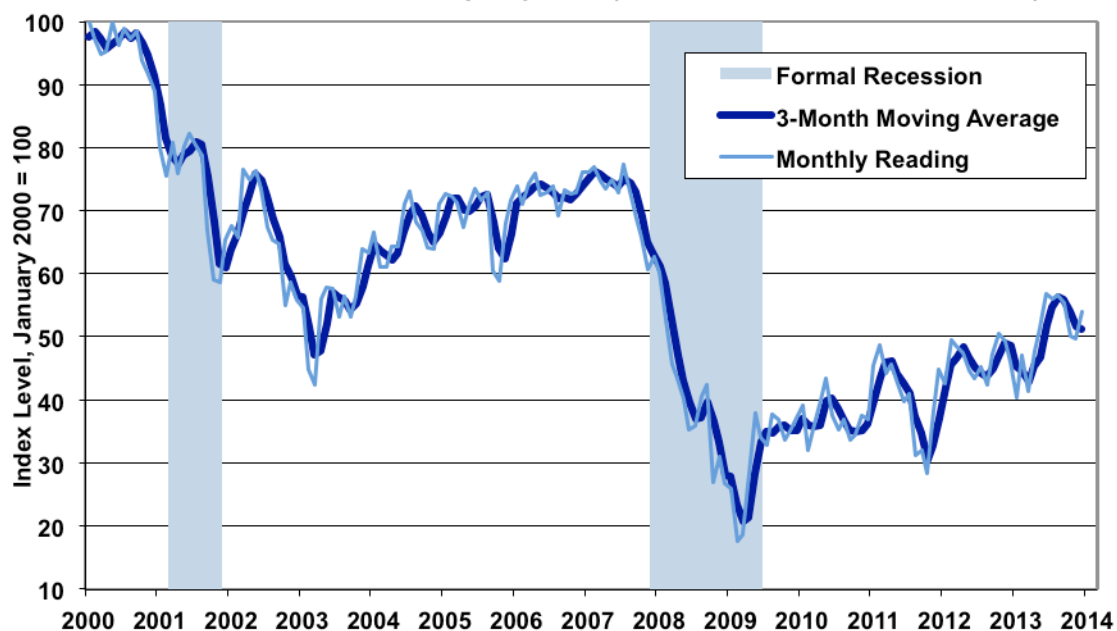
ShadowStats Consumer Credit Outstanding Index Total and Total Ex-Student Loans

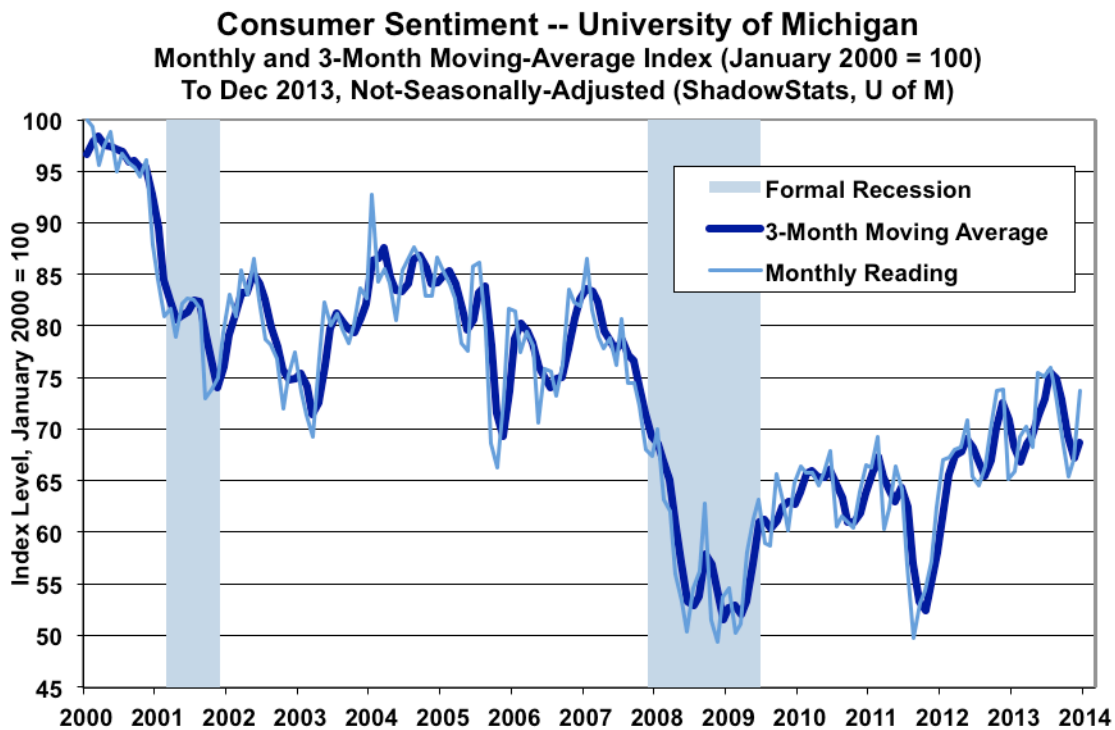
With Jan 2006 Discontinuities, 2010-2011 Discontinuities
Removed, Total Credit Indexed to Jan 2000=100
Through November 2013, NSA (ShadowStats.com, FRB)



Consumer Confidence -- Conference Board

Monthly and 3-Month Moving-Average Index (January 2000 = 100)
To Dec 2013, Seasonally-Adjusted (ShadowStats, Conference Board)





[For further details on December retail sales, see the Reporting Detail Section.]

HYPERINFLATION WATCH

Hyperinflation Outlook. With [Hyperinflation 2014—The End Game Begins](#) published on January 7th, a new *Hyperinflation Summary* for this section will be added shortly.

REPORTING DETAIL

RETAIL SALES (December 2013)

Updated Detail Showed Slowing Retail Sales Activity. December's headline 0.2% monthly gain (before inflation adjustment) in retail sales was not good news for the retail trade, where December is the industry's dominant month. That minimal gain not only should become "unchanged" or "in decline," net of inflation impact, but also it was reported in the context of downside revisions to estimated activity in November and October. November's initial headline growth of 0.7% revised to 0.4%, but the revised growth would have been 0.3%, except for a downside revision as well to October activity. As a result, headline reporting for December sales was below the initially-reported activity for November. Further, year-to-year December growth slowed sharply, both before and after inflation adjustment, with real growth likely remaining deep in recession-signal territory.

Where concurrent seasonal adjustments are recalculated every month, but not reported on a consistent, historical basis, the retail sales reporting suffers the same inconsistency issues that are seen with other economic series, such as payroll employment, the unemployment rate, and durable goods orders. The highly variable and unstable seasonal factors here have continued to cloud relative activity in the October 2013-to-December 2013, and in the November 2012-to-December 2012 periods, five months that are published on a non-comparable basis with all the other historical monthly numbers. Although the published historical numbers were consistent at the time of the May 31, 2013 benchmark revision, eight intervening rounds of post-revision, concurrent-seasonal adjustments now have thrown all the historical numbers into disorder. The resulting inconsistencies allow for unreported shifts in the historical data that most likely are distorting the estimates of the current headline numbers.

Underlying Fundamentals Remain Negative. The new data did not alter the basic outlook or the traditional recession signals that have been in place. As has been the circumstance during the five-plus years of economic collapse, activity in consumer buying of goods and services has been constrained by the intense, structural-liquidity woes besetting the consumer, as discussed in the *Opening Comments* section. 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.

Note: The stability of the seasonal-adjustment process (particularly the concurrent seasonal-adjustment process used with retail sales) and sampling methods has been disrupted severely by the unprecedented depth and length of the current economic downturn in the post-World War II era (the period of modern economic reporting). Under such circumstances, where the markets effectively are flying blind as to actual economic activity, consideration of broad underlying fundamentals is essential. Consumer income and credit remain structurally impaired, as discussed in the Opening Comments and in [Hyperinflation 2012](#) and [Special Commentary \(No. 485\)](#).

Nominal (Not-Adjusted-for-Inflation) Retail Sales—December 2013. In the context of relatively large downside revisions to prior reporting, and not adjusted for consumer inflation, today’s (January 14th) report on December 2013 retail sales—issued by the Census Bureau—indicated a statistically-insignificant, seasonally-adjusted monthly increase of 0.2%. That was a 0.23% gain at the second decimal point, a contraction of 0.10% before prior-period revisions, +/- 0.58% (all confidence intervals are at the 95% level). The December increase followed a revised, statistically-significant month-to-month gain of 0.44% (previously a gain of 0.68%) +/-0.23% in November. October’s prior monthly gain of 0.61% was revised to 0.52%.

Year-to-year, December 2013 retail sales rose by a statistically-significant 4.10% (+/- 0.82%), versus a revised 4.22% (previously 4.69%) annual gain in November, and a revised 4.02% (previously 4.12%) in October. Prior-period revisions, one year ago, reflected little more than the unstable monthly revisions in the concurrent-seasonal-adjustment process, where revised estimates are reported and shown only selectively. Indeed, the pattern of growth here remains distorted by the resulting lack of fully-consistent, seasonally-adjusted numbers being published by the Census Bureau.

Core Retail Sales Declined in December. Seasonally-adjusted monthly grocery-store sales rose by 1.89% in December, with gasoline-station sales gaining 1.55% for the month. Under normal conditions, the bulk of non-seasonal variability in food and gasoline sales is in pricing, instead of demand. “Core” retail sales—consistent with the Federal Reserve’s preference for ignoring food and energy prices when “core” inflation is lower than full inflation—are estimated using two approaches:

Version I: December 2013 versus November 2013 seasonally-adjusted retail sales series—net of total grocery store and gasoline station revenues—fell by 0.18%, versus the official gain of 0.23%.

Version II: December 2013 versus November 2013 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—fell by 0.14%, versus the official gain of 0.23%.

Real (Inflation-Adjusted) Retail Sales—December 2013. The headline 0.23% nominal gain in monthly December retail sales was before accounting for inflation. Real retail sales for December (adjusted for inflation), will be reported along with the headline estimate of consumer inflation, the December CPI-U, in the January 16th *Commentary No. 592*. Per the discussion in the *Week Ahead* section, the headline December CPI-U likely will show positive inflation of 0.2%, or more, which offers a strong chance of headline real retail sales being flat-to-minus for the month of December.

WEEK AHEAD

Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead. At the moment, markets generally are overly optimistic as to the economic outlook, based on data that likely were puffed-up in the process of going through the data-gathering and reporting distortions of the October shutdown to the federal government. Although expectations should soften anew, quickly, there remains the potential for unusual, irregular and eventually corrective reporting and revisions in the months ahead.

That circumstance, and underlying fundamentals that remain highly suggestive of deteriorating business activity, mean that weaker-than-consensus economic reporting should become the general trend.

Stronger inflation reporting is likely. 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, the ongoing U.S. fiscal-crisis debacle, a weakening U.S. economy and deteriorating U.S. political conditions (see [Hyperinflation 2014—The End Game Begins](#)). Particularly in tandem with a weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected inflation.

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 seven-to-eight 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:

Producer Price Index—PPI (December 2013). The December 2013 PPI is scheduled for release, tomorrow, Wednesday, January 15th, by the Bureau of Labor Statistics (BLS). This lame-duck series faces a complete overhaul and redefinition come the release of the January 2014 data in February 2014 (see [Commentary No. 582](#)). The new series will be reviewed here, in what will be the accompanying *Commentary No. 591*.

That said, depending on the oil contract followed, not-seasonally-adjusted monthly-average oil prices, were up by 2.8%-to-4.0% for the month of December, along with a 1.1% increase in average retail

gasoline prices. There will be some added inflation gain from positive seasonal adjustments to energy prices. Accordingly, December PPI energy prices should prove to be the dominant upside contributor to the headline inflation.

Overall, a moderate increase is likely in the finished goods PPI, with likely upside contributions from food and “core” inflation adding to the higher energy costs.

Consumer Price Index—CPI (December 2013). The release by the Bureau of Labor Statistics (BLS) of the December 2013 CPI is scheduled for Thursday, January 16th. The headline CPI-U is a good bet to increase by 0.2%, or more, based on gasoline prices and dependent on upside contributions from food prices and core inflation.

Average gasoline prices rose month-to-month in December 2013 by 1.1-percentage points, on a not-seasonally-adjusted basis, per the Department of Energy. The BLS seasonal adjustments will give gas prices a boost. As last revised, an unadjusted 4.2% monthly decline in December 2012 gasoline prices was narrowed to a 1.9% contraction, with upside seasonal adjustments. Similar effects in the December 2013 number, by themselves, would add 0.2% to the headline CPI-U number. Any upside surprise here would come from food prices or core inflation.

Year-to-year, CPI-U inflation would increase or decrease in 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%. For example, if the headline December 2013 CPI-U increased by 0.2%, the new year-to-year inflation would be in the 1.4%-to-1.5% range.

Index of Industrial Production (December 2013). The December 2013 index of industrial production is scheduled for release on Friday, January 17th, by the Federal Reserve Board. Net of the irregular volatility in utility output tied to seasonable or seasonable weather, moderate expectations for December production growth are a fair bet to be disappointed, as companies increasingly move to reduce excessive inventory levels. There also remains the potential for unusual reporting volatility and revisions tied to data disruptions resulting from the October shutdown of the federal government.

Residential Construction—Housing Starts (December 2013). Also on Friday, January 17th, the Census Bureau will publish its estimate of December 2013 housing starts. This series was distorted heavily by data-gathering and reporting issues that resulted from the government shutdown in October. Given last month’s seriously-flawed, coincident release of initial reporting for September, October and November 2013 monthly data, the December housing starts reporting could reflect catch-up reporting, significant prior-period revisions and/or further haphazard monthly detail. The markets appear to be looking for a large, downside correction, which is reasonable. Anything is possible in the December detail, but ultimately, the unbelievably strong data in the prior reporting should disappear in a sort-term correction or revisions in the next several months.

Despite near-perpetual market expectations for strengthening activity in housing starts, reported month-to-month change likely will resume its regular pattern of statistical-insignificance, soon, with ongoing stagnation and renewed downturn 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 five-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.
