

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

**COMMENTARY NUMBER 610**  
**February CPI, Real Retail Sales and Earnings, Housing Starts**  
**March 18, 2014**

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**Strongest Recession Signal Since Eve of the Economic Collapse**  
**Real Retail Sales on Track for 4% Annualized Plunge in First-Quarter 2014**  
**Housing Starts on Track for 34% Annualized Plunge in First-Quarter 2014**  
**For Second Month, Unadjusted Monthly 0.4% CPI Inflation**  
**Was Squashed to 0.1% by Seasonal Adjustments**  
**February Annual Inflation: 1.1% (CPI-U), 1.0% (CPI-W), 8.8% (ShadowStats)**  
**Real Earnings Down 0.2% in February**

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*PLEASE NOTE: The next regular Commentary is scheduled for Wednesday, March 26th, covering February new orders for durable goods and new- and existing-home sales, followed by one on the 27th covering the third estimate of fourth-quarter 2013 GDP, and one on the 28th covering the annual benchmark revisions to industrial production. The Special Commentaries on 2013 U.S. GAAP accounting and the second installment on the hyperinflation report are expected to be intervening. Specific timing on the special reports will be posted, when set, in the schedule box on the home page of [www.ShadowStats.com](http://www.ShadowStats.com).*

*Best wishes to all — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Near-Term Recession Is in Play.** Most clearly, real retail sales are showing the U.S. economy on the brink of formal recession—new or double-dip. Inflation-adjusted retail activity is headed for a sharp contraction in first-quarter 2014, and annual growth has dropped to levels showing a near-term recession to be in place. That detail is covered in today's *Commentary*. Consistent with such reporting is industrial production activity, although the consistency is not so obvious. The issue there, as discussed in [Commentary No. 609](#), is in flattening out unusual distortions from unseasonable weather.

The housing sector also seems be headed for a significant first-quarter contraction, as discussed in today's missive, but that series is subject to extreme volatility. While only one month of trade-deficit reporting is available so far for first-quarter 2014, it represents half the total that will be used in the first estimate of first-quarter 2014 GDP, and it is in the direction of reducing GDP growth (see [Commentary No. 607](#)). Also generally weaker than the markets would like to see, headline employment and unemployment reporting ([Commentary No. 607](#)) are not inconsistent with a renewed economic downturn.

In combination, these headline numbers, compounded with the ongoing constraints on consumer liquidity, just might be enough to push the U.S. economy into a first-quarter 2014 headline contraction and formal recession. That is not expected, but it could be a primary event—in confluence with other factors, political and otherwise—to trigger a major downturn in the U.S. dollar and a concurrent negative shift in global perceptions of U.S. financial and political stability. The advance estimate for first-quarter 2014 GDP is scheduled for April 30th.

**February 2014 CPI-U—Distorted Seasonal Factors Come into Play, Again.** Where instabilities seen in last year's month-to-month headline inflation numbers were due largely to poor-quality seasonal adjustments (see [Commentary No. 602](#)), those problems have continued into 2014. As with January, February's seasonal factors reduced headline CPI-U to 0.1% from an unadjusted 0.4%. When headline inflation gets understated due to bad seasonals, there is a period of catch-up that follows within the year. The current period is one of headline CPI-U inflation understatement, and that should flip to the other side by mid-year.

These headline variations aside, going forward, as discussed in [Hyperinflation 2014—The End Game Begins](#), risks of a massive flight from the U.S. dollar, favor resulting upside energy inflation driving headline consumer inflation much higher. The nascent dollar problems could accelerate at any time, with little warning. Renewed financial-market turmoil surrounding deteriorating global and domestic political, fiscal and monetary instabilities, and rapidly worsening economic activity, all should pummel the U.S. dollar. Ongoing economic and financial-system-liquidity crises still threaten systemic instabilities that, as with their 2008 Panic precursors, cannot be contained without further, official actions that have serious inflation consequences.

**CPI-U.** Mirroring January's reporting, the headline, seasonally-adjusted CPI-U for February 2014 rose by 0.1% (0.10% at the second decimal point), and was up by 0.37% for the month on a not-seasonally-

adjusted basis. January rose by 0.1% (0.14% at the second decimal point) and, on a not-seasonally-adjusted basis, also was up by 0.37% for the month.

Encompassed by the headline February 2014 CPI-U gain of 0.1% (up by 0.4% unadjusted), aggregate energy inflation in February was down by an adjusted 0.5% (up by an unadjusted 1.0%) for the month. In the other major CPI sectors, adjusted food inflation was up by 0.4% for the month (up by 0.3% unadjusted), while “core” inflation rose by an adjusted 0.1% (up by 0.3% unadjusted).

Not seasonally adjusted, February 2014 year-to-year inflation for the CPI-U was a gain of 1.13%, versus 1.58% in January.

**CPI-W.** The February 2014 headline, seasonally-adjusted CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose by 0.05% in February (up by 0.36% unadjusted), versus 0.14% in January (up by 0.38% unadjusted). Unadjusted, February 2014 year-to-year CPI-W inflation slowed to 0.98%, from 1.55% in January.

**Chained-CPI-U.** Initial reporting of unadjusted year-to-year inflation for the February 2014 C-CPI-U was 0.98%, down from 1.43% in January.

**Alternate Consumer Inflation Measures.** The ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—annual CPI inflation was roughly 4.7% in February 2014, versus 5.0% in January. The ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, eased to about 8.8% in February 2014, versus 9.2% in January.

**Real (Inflation-Adjusted) Retail Sales—February 2014—Recession Is Pending.** Real retail sales continued to signal pending recession. Historical year-to-year change in inflation-adjusted (CPI-U) retail sales (see graphs in *Reporting Detail*), generally has signaled pending recession whenever growth has fallen below 2.0%. It hit 0.4% in February 2014, following a downwardly revised 0.4% in January 2014, generating the strongest recession signal seen since December 2007, which was the formal onset of the 2007 recession.

As discussed in [Commentary No. 608](#), the nominal monthly gain of 0.27% in headline February 2014 retail sales, a revised January 2014 decline of 0.64% (previously down by 0.41%), and a revised decline of 0.31% (previously down by 0.12%) in December 2013, all were before accounting for inflation.

Based on today’s reporting of a 0.10% headline gain in the February 2014 CPI-U, in the context of prior January and December CPI-U reporting, seasonally-adjusted real monthly retail sales rose by 0.17% in February, following a revised 0.78% (previously 0.55%) plunge in January 2014, and a revised 0.54% (previously 0.36%) decline in December.

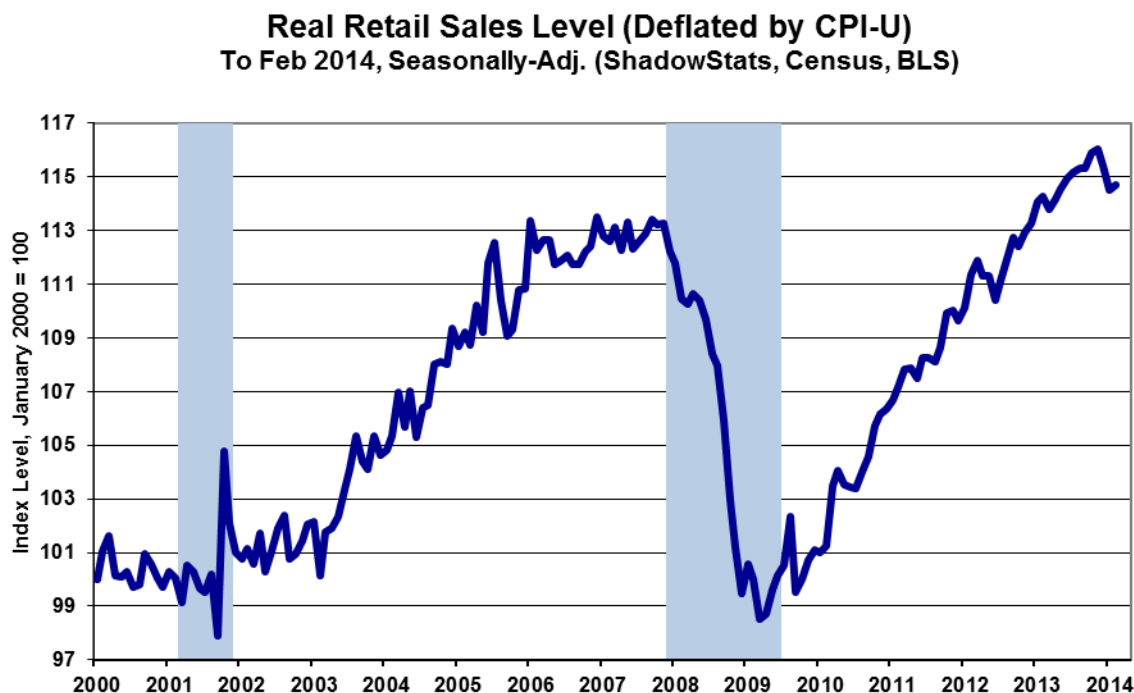
Year-to-year change in February 2014 real retail sales was a 0.37% gain, versus a 0.38% (previously a 0.99%) gain in January, and a revised 1.89% (previously a 2.08%) gain in November. In normal economic times, annual real growth falling below 2.0% would signal a pending recession. In the current circumstance, this signal likely will serve as an indicator of a renewed downturn in broad economic

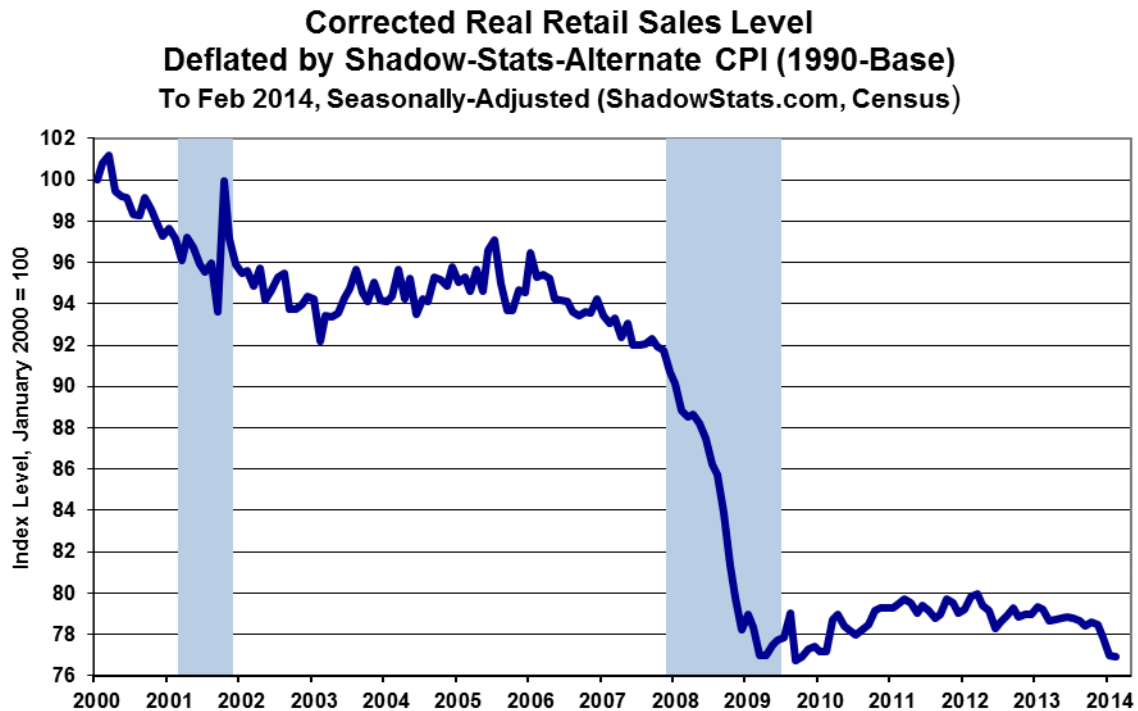
activity, if not an outright economic contraction in first-quarter 2014. With two months of first-quarter 2014 in place, first-quarter real retail sales are on track to show a 4.0% annualized contraction, following a 1.8% annualized gain in fourth-quarter 2013.

Fundamentally, also as discussed in [Commentary No. 608](#), 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 March and 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 continue to trend meaningfully lower, in what eventually will gain recognition as a formal new or double-dip recession.

**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 February 2014 CPI-U and nominal retail sales releases. As seen in the first graph, official real retail sales recently recovered its pre-recession high, but that is a statistical illusion. The CPI-U understates inflation (see the [Public Comment on Inflation](#)), with the effect of overstating inflation-adjusted activity, as seen in the real or inflation-adjusted retail sales series.





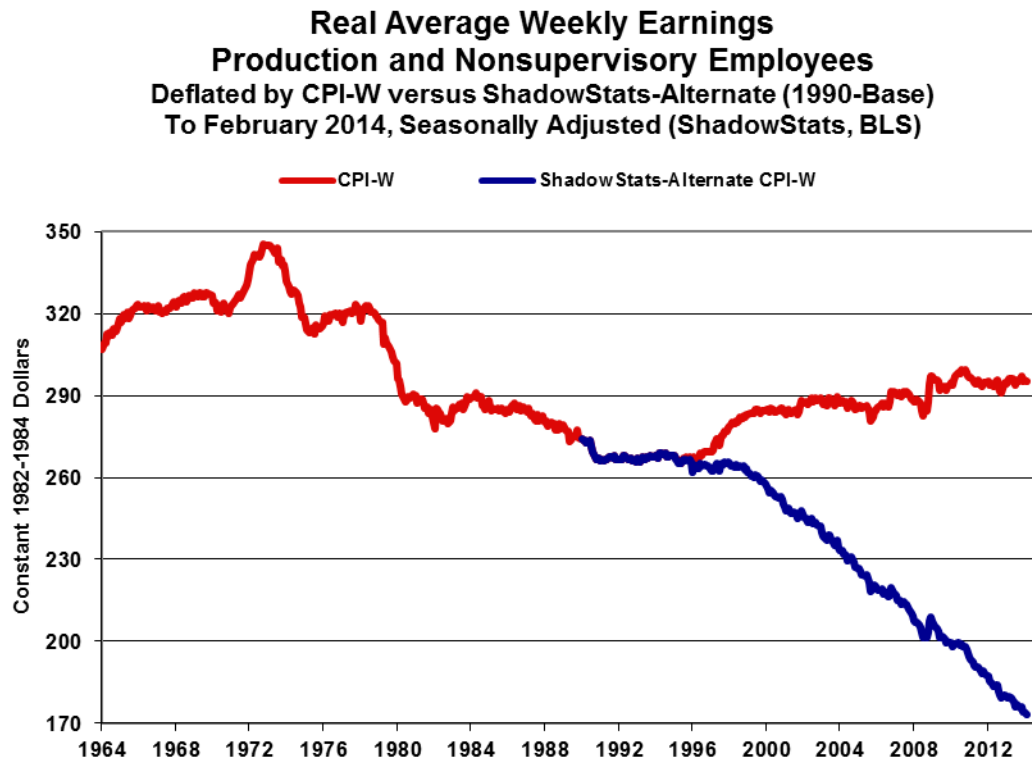
Instead of being deflated by the CPI-U, the “corrected” real retail sales numbers in the preceding graph, use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation.

With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation and renewed downturn, 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 in the most recent reporting.

**Real Average Weekly Earnings—February 2014—Minimal Decline for Month.** 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) fell by 0.21% in February, following an unrevised increase of 0.16% in January. Year-to-year, February 2014 real earnings growth slowed to 0.04%, from 0.45% in January 2013. Both the monthly and annual fluctuations in this series are irregular, but current reporting remains well within the normal bounds of volatility. Prior-period revisions usually are due to the instabilities in the BLS monthly surveys.

The following graph of this series 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.



**February 2014 Housing Starts—Decline and Stagnation.** The headline 0.2% decline in February 2014 housing starts was not statistically-significant. Reporting in the housing starts series remains highly unstable, and it generally has been unstable enough in recent years that headline month-to-month changes in activity rarely have been statistically significant. Exacerbating that circumstance, the housing data—particularly housing starts and new home sales out of the Census Bureau—appear to have been distorted heavily by the October government shutdown and its aftermath in data-gathering and reporting processes. That was seen in the initial headline monthly surge of 23% in November 2013 housing starts activity, which remains largely intact.

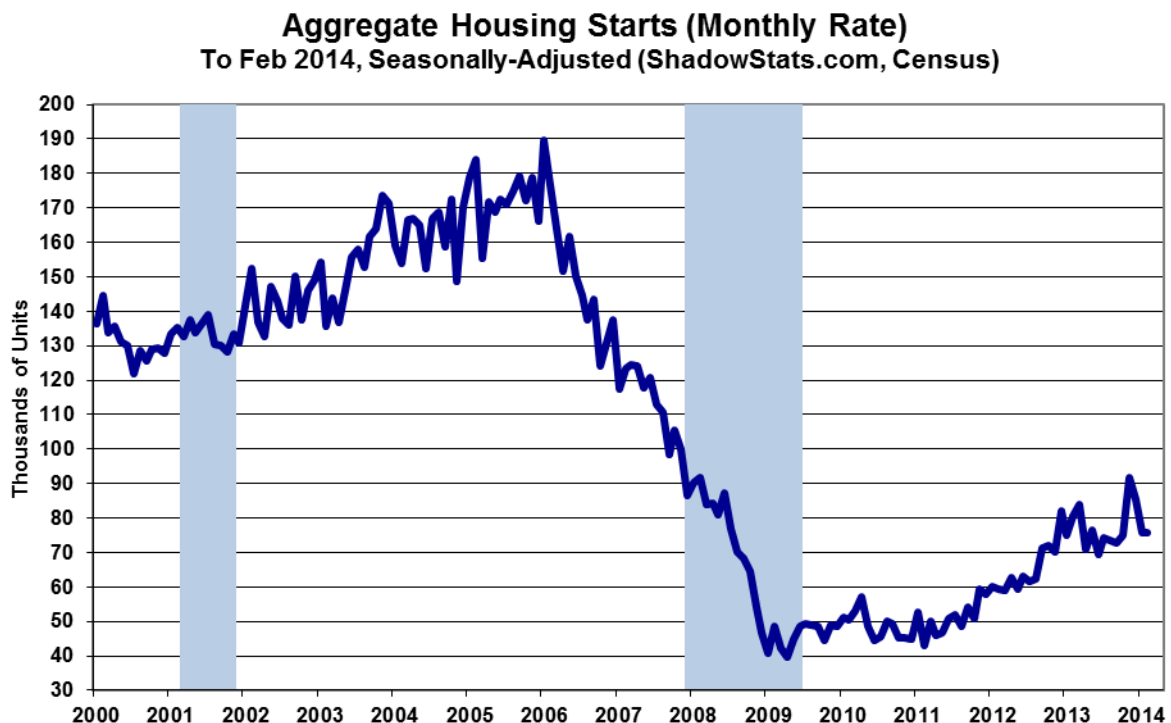
Since then, monthly numbers generally have been reported on the downside, although the new data continue to be unstable, subject to heavy revisions, and again rarely are statistically significant. An upcoming annual revision to the housing data likely will result in the reporting of a smoother historical series. Going forward, monthly reporting should remain volatile, albeit at lower levels.

As discussed in [Commentary No. 608](#), there has been no change in underlying consumer-liquidity fundamentals. There is nothing that would support a sustainable turnaround in the housing industry or general economic activity. There never was an economic recovery, and there is no recovery underway, just general bottom-bouncing that broadly is turning down anew.

**February 2014 Housing-Starts Detail.** The headline monthly decline in seasonally-adjusted February 2014 housing starts was 0.2%, a statistically-insignificant change. The February decline was in the context of an upside revision to January's housing starts level of 3.3%, with a narrowing of January's headline decline to 11.2% from the previously estimated 16.0%. Net of prior-period revisions, February housing starts rose by a still-statistically-insignificant 3.1%.

Based on February's reporting, despite the month-to-month stagnation, the housing starts series is on track to show a 34.2% annualized pace of quarterly contraction in first-quarter 2014.

Year-to-year change in the seasonally-adjusted, aggregate February 2014 housing-starts measure was a contraction, down by a statistically-insignificant 6.4%. That was against a revised 1.2% annual gain in January (previously a decline).



Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with one-unit housing starts that generally are for individual

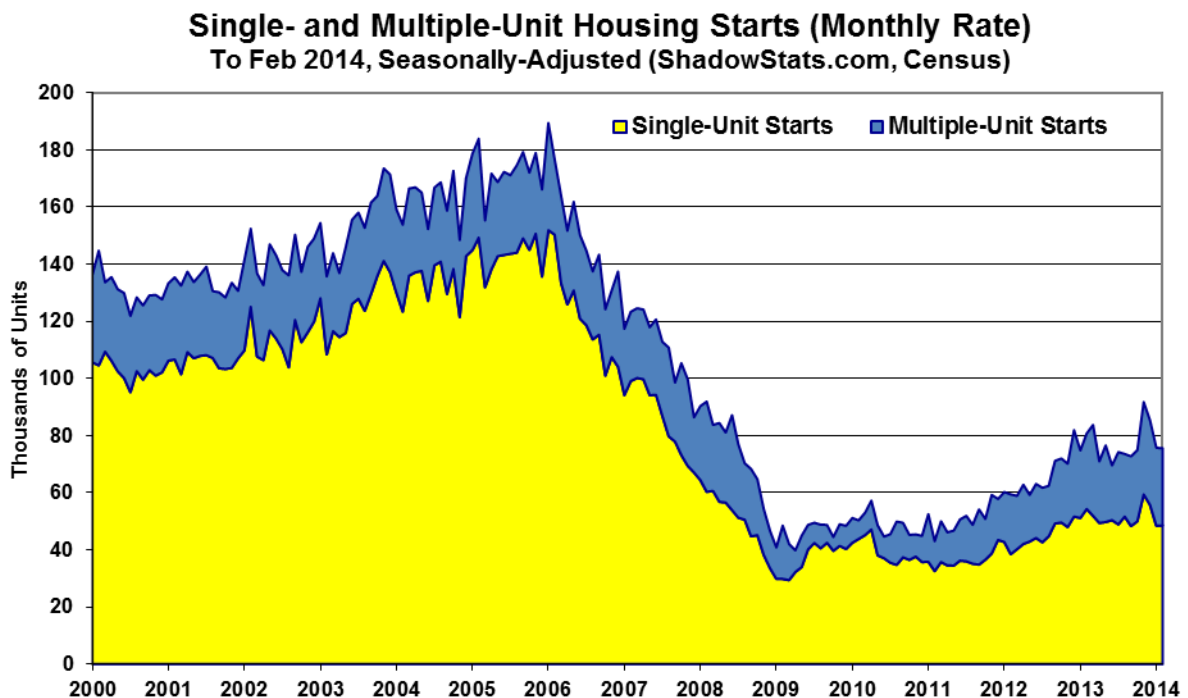


consumption, resulting in new home sales, versus multi-unit starts that generally reflect the building of rental and apartment units.

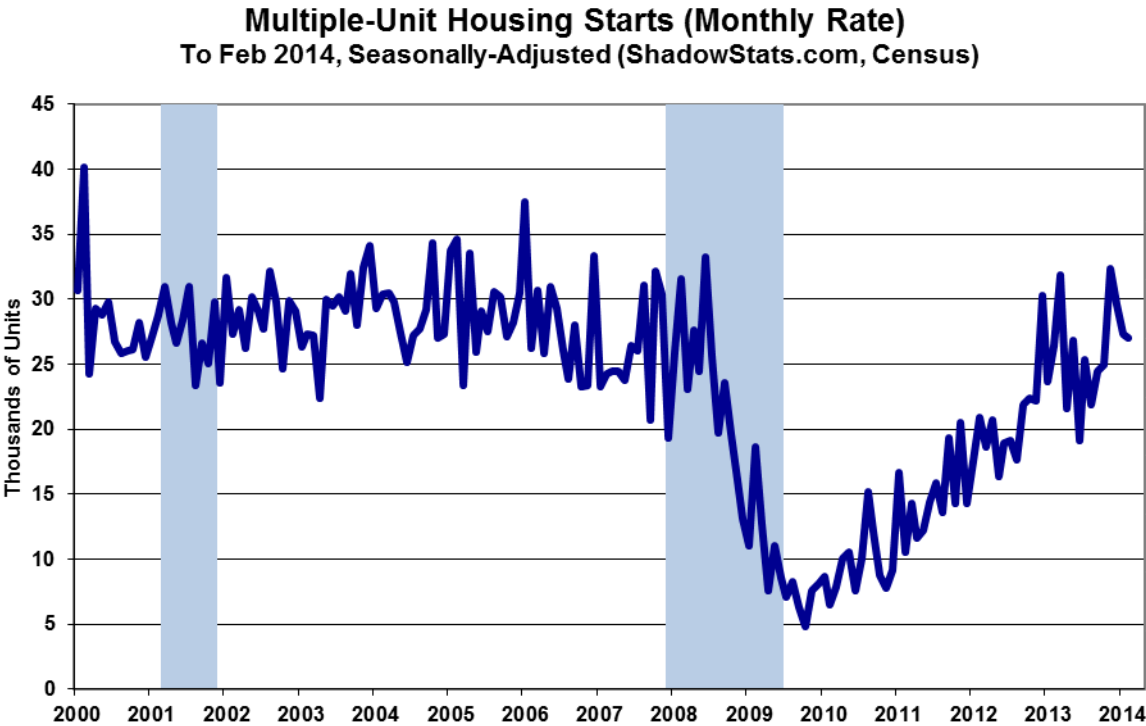
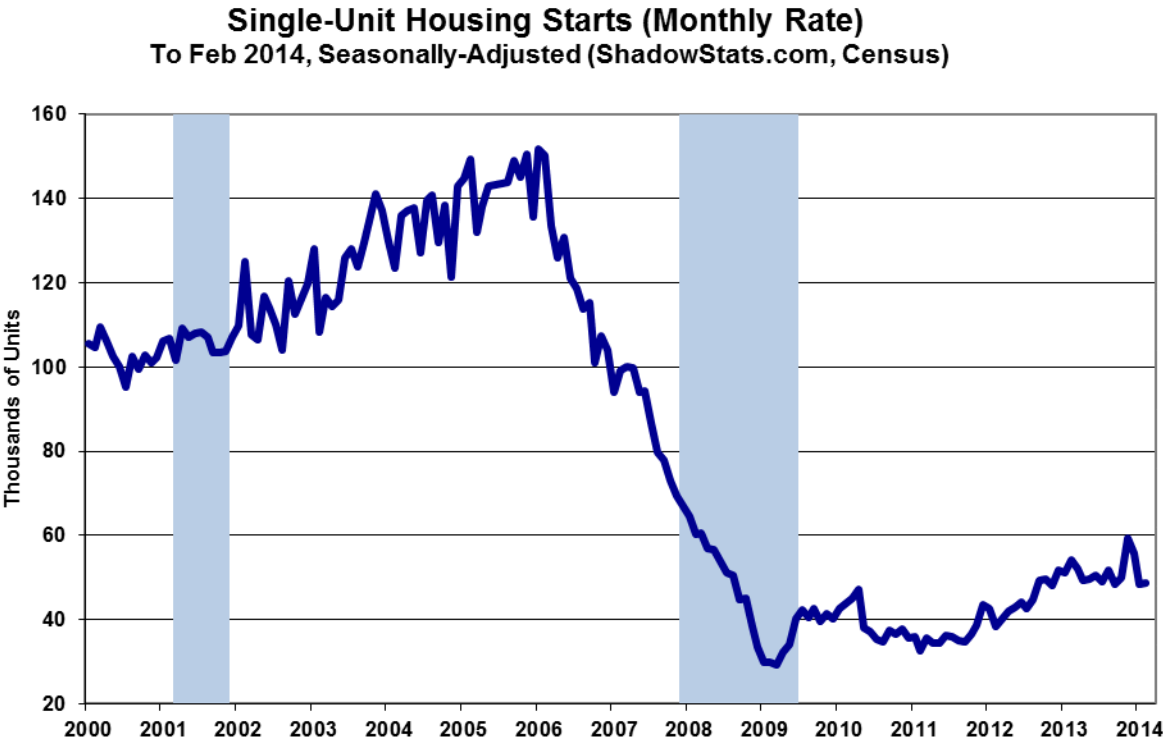
**Sub-Categories.** Housing starts for single-unit structures in February rose by a statistically-insignificant 0.3% for the month, versus a revised 13.2% decline in January. February's year-to-year decline of 10.6% also was statistically insignificant, versus a revised 5.0% annual decline in January.

Reporting of housing starts for apartment buildings (generally 5 units or more) showed declining activity for the third month, down by a statistically-insignificant 2.5%, versus a revised decline of 4.2% in January. February's year-to-year gain of 1.6% also was not statistically-significant. January's year-to-year activity revised to a 17.2% gain.

Expanding the multi-unit housing starts category to include "2 to 4 units" plus "5 units or more," usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the "2 to 4 units" category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category. Accordingly, the aggregate, statistically-insignificant February monthly decline of 0.2% was composed of a 0.3% monthly gain in one-unit housing starts, combined with a 1.2% monthly decline in starts of multiple-unit structures (2 units or more, including the "5 units or more" category).







***Graphs of Housing Starts Activity.*** The record monthly low seen for the present aggregate series was in April 2009, which was down 79% from the January 2006 pre-recession peak. Against the downside-spiked low in April 2009, the February 2014 headline number was up by 90%, but it still was down by 60% from the January 2006 series high. That detail is reflected in the graphs of this section, as well as in those of the *Reporting Detail* section.

The official reporting of housing starts is expressed at an annualized monthly pace of starts, which was 907,000 in February 2014, versus a revised 909,000 in January 2014. Those details are shown in the graphs in the *Reporting Detail* section. Where the magnitude of monthly activity more realistically is reflected at the actual monthly rate of 75.6 thousand in February, versus the annualized headline 907 thousand, the monthly rate is used in the scales of the preceding graphs in this section. With either scale, the appearance of the graph and the monthly and annual percent changes are the same.

***[For more detailed reporting on the February CPI, real retail sales and earnings, and housing starts, see the Reporting Detail section. Extended detail on the official inflation and housing numbers are available to ShadowStats readers on the site of ShadowStats affiliate [www.ExpliStats.com](http://www.ExpliStats.com).]***

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## HYPERINFLATION WATCH

**Hyperinflation Outlook.** With the *First Installment* of [Hyperinflation 2014—The End Game Begins](#) published, a new *Hyperinflation Summary* for this section will be added in conjunction with the publication of the *Second Installment*, which will follow shortly. Specific timing will be posted in the schedule box on the home page of [www.ShadowStats.com](http://www.ShadowStats.com).

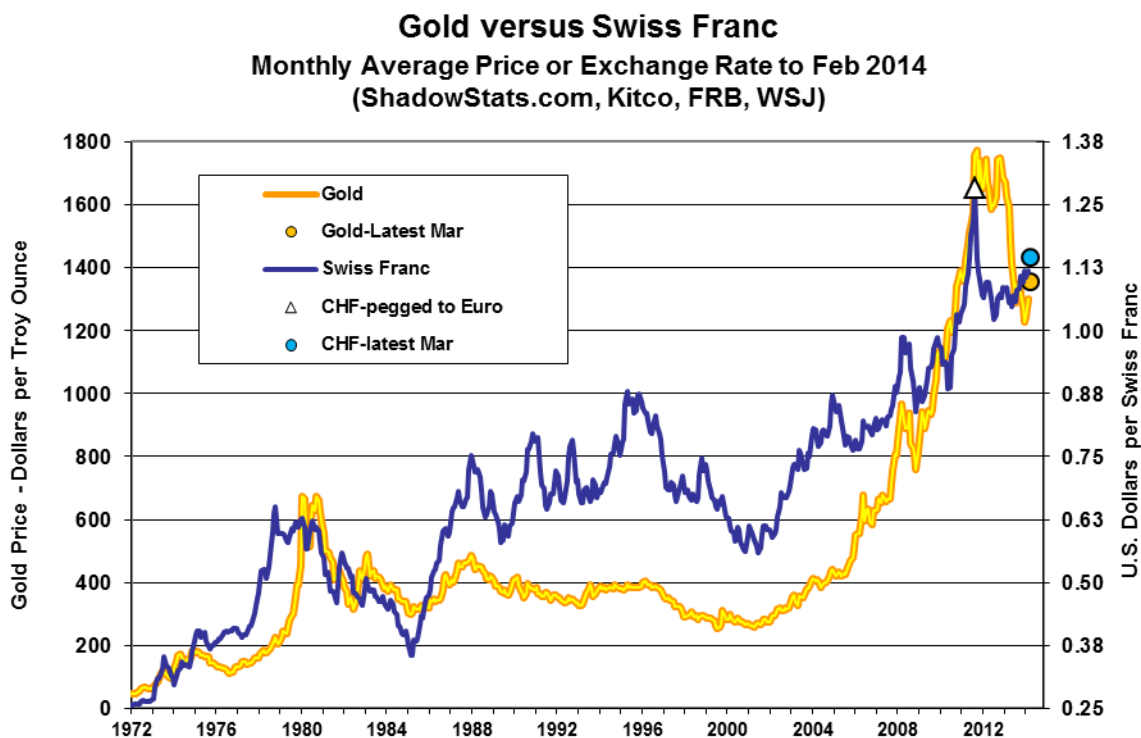
The second and final installment will cover historical and prospective economic activity, as well as possible protective and preventative actions and reactions at both a personal and federal level, versus the unfolding circumstance. It also will include analysis of the 2013 GAAP-based financial statements of the United States government (released February 27th) and detail from the Federal Reserve's 2013 annual flow-of-funds analysis (released on March 6th). The new material in the *Second Installment* will supplement and update the basic material already available to ShadowStats readers in Chapters 4, 5 and 9 of [Hyperinflation 2012](#).

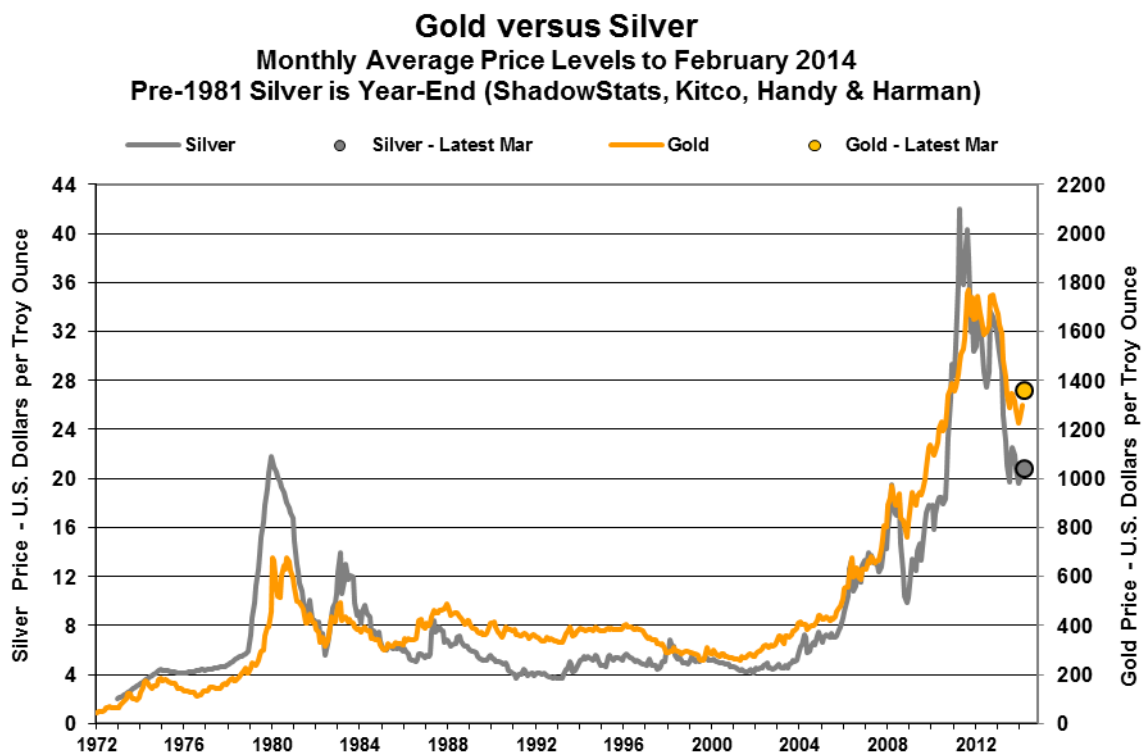
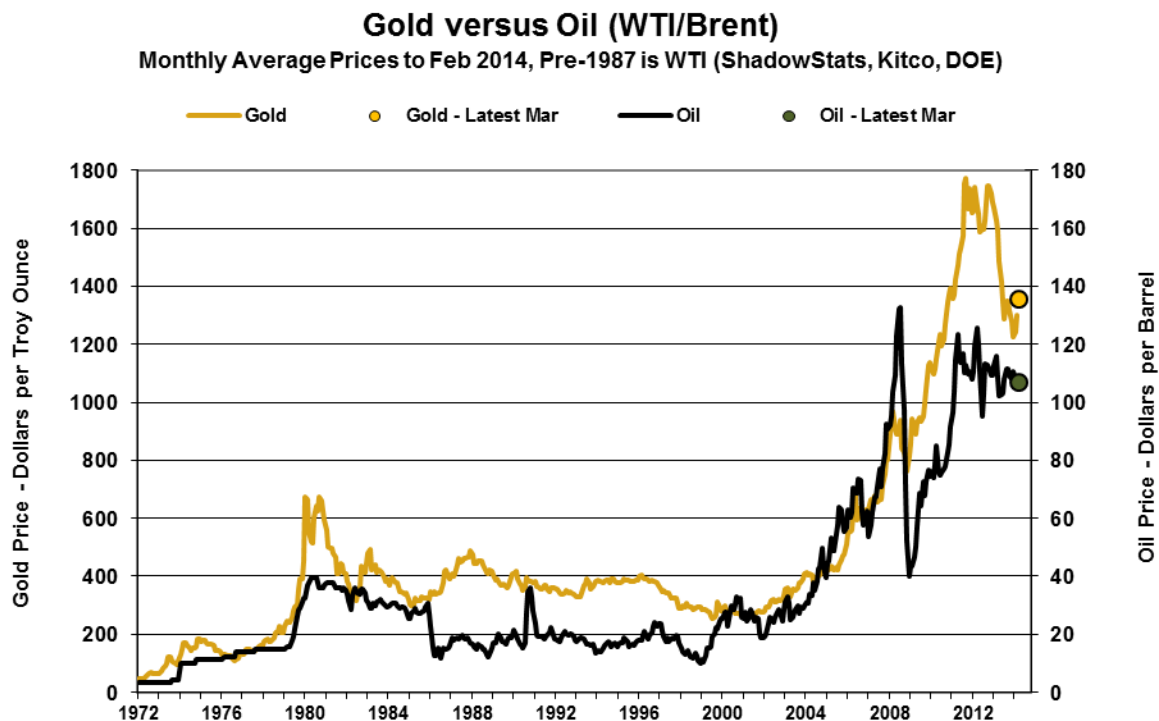
**Monthly Gold Graphs.** Following are the regular graphs of gold prices versus the Swiss franc, oil prices and silver prices that usually accompany the *Commentary* on the monthly CPI release. Turmoil in the

markets has intensified, recently, with the dollar showing new softness, along with some rebound in the prices of precious metals, amidst mounting global political tensions and a rapidly weakening U.S. economy. Related market fears also center on worsening fiscal and monetary instabilities, and deteriorating domestic political circumstances. All these issues 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.

As discussed in [Hyperinflation 2014—The End Game Begins](#), the underlying fundamentals could not be much weaker for the U.S. dollar, and they could not be stronger for gold and silver, irrespective of unusual price volatility in the last year. More-recent oil price volatility has reflected shifting global circumstances, but oil prices also face significant, further upside pressure as the U.S. dollar comes under heavier selling pressure.

The “latest March” points in the following graphs reflect approximate conditions as of late-afternoon New York time, March 18th.





## REPORTING DETAIL

### CONSUMER PRICE INDEX—CPI (February 2014)

**As with January, February Seasonal Factors Again Reduced Headline CPI-U to 0.1% from 0.4%.** Where instabilities seen in last year's month-to-month headline inflation numbers were due largely to poor-quality seasonal adjustments (see [Commentary No. 602](#)), those problems have continued into 2014. When headline inflation gets understated due to bad seasonals, there is a period of catch-up that follows within the year. The current period is one of headline CPI-U inflation understatement, and that should flip to the other side by mid-year.

Minor monthly headline variations aside, going forward, and as discussed in [Hyperinflation 2014—The End Game Begins](#), risks of a massive flight from the U.S. dollar, favor resulting upside energy inflation driving headline consumer inflation much higher. The nascent dollar problems could accelerate at any time, with little warning. Renewed financial-market turmoil surrounding deteriorating global and domestic political, fiscal and monetary instabilities, and rapidly worsening economic activity, all should pummel the U.S. dollar. Ongoing economic and financial-system-liquidity crises still threaten systemic instabilities that, as with their 2008 Panic precursors, cannot be contained without further, official actions that have serious inflation consequences.

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.*

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**CPI-U.** The Bureau of Labor Statistics (BLS) reported this morning, March 18th, that the headline, seasonally-adjusted CPI-U for February 2014 rose by 0.1% (0.10% at the second decimal point). Also mirroring January’s experience, on a not-seasonally-adjusted basis, the February 2014 CPI-U was up by 0.37% for the month. January rose by 0.1% (0.14% at the second decimal point) and, on a not-seasonally-adjusted basis, also was up by 0.37% for the month.

**Monthly Gasoline Prices.** The BLS used a gain of 1.1% in not-seasonally-adjusted gasoline prices, instead of the higher 1.2% increase indicated by the more-comprehensive, industry-based surveying of the Department of Energy. With heavily-negative seasonal adjustments, the unadjusted gain in gasoline prices was turned into a seasonally-adjusted 1.7% monthly contraction. Although seasonal adjustments were slightly positive for monthly food prices, they were negative for the headline “core” inflation, net of food and energy.

**Major CPI Groups.** Encompassed by the headline February 2014 CPI-U gain of 0.1% (up by 0.4% unadjusted), aggregate energy inflation in February was down by an adjusted 0.5% (up by an unadjusted 1.0%) for the month. In the other major CPI sectors, adjusted food inflation was up by 0.4% for the month (up by 0.3% unadjusted), while “core” inflation rose by an adjusted 0.1% (up by 0.3% unadjusted).

**Year-to-Year CPI-U.** Not seasonally adjusted, February 2014 year-to-year inflation for the CPI-U was a gain of 1.13%, versus 1.58% in January.

Year-to-year, CPI-U inflation would increase or decrease in next month’s March 2014 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.23% decline in the monthly inflation reported for March 2013. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for March 2014, the difference in February’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the February 2014 annual inflation rate of 1.13%.

**Core CPI-U.** Seasonally-adjusted February 2014 “core” CPI-U inflation (net of food and energy inflation) rose by 0.12% (0.30% unadjusted), versus an adjusted increase of 0.13% (0.16% unadjusted) in

January. Year-to-year “core” inflation was 1.57% in February, versus 1.62% in January 2014. The previous PPI “core” inflation comparison will not be resumed, due to the lack of a meaningful “core” inflation number available in the aggregate, fully revamped new PPI.

**CPI-W.** The February 2014 headline, seasonally-adjusted CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose by 0.05% in February (up by 0.36% unadjusted), versus 0.14% in January (up by 0.38% unadjusted). Unadjusted, February 2014 year-to-year CPI-W inflation slowed to 0.98%, from 1.55% in January.

**Chained-CPI-U.** Initial reporting of unadjusted year-to-year inflation for the February 2014 C-CPI-U was 0.98%, down from 1.43% in January.

*[The balance of the C-CPI-U discussion is unchanged from the prior Commentary covering the CPI.]* The recent, two-year budget deficit agreement (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.

The Chained-CPI-U currently is not designed as a benchmark cost-of-living indicator, with the series subject to revisions for two years, before the inflation-rate reduction is realized fully. 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 February 2014, versus 5.0% in January. The ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, eased to about 8.8% (8.81% for those using the second decimal point) in February 2014, versus 9.2% in January.

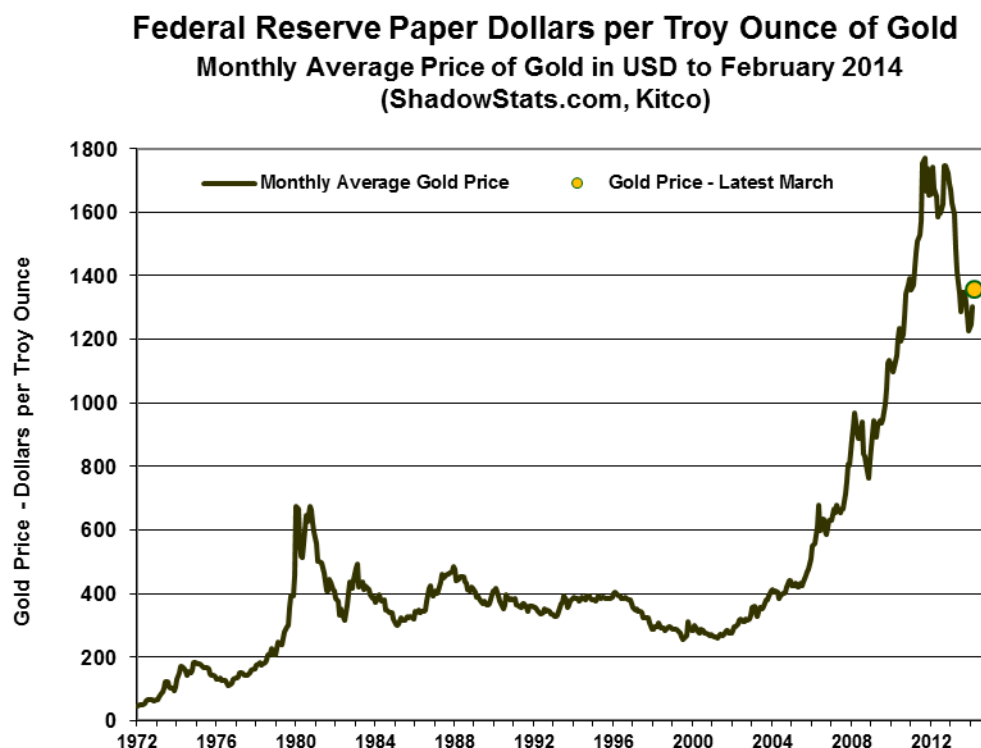
*[The balance of the text in this Alternate Consumer Inflation Measures sub-section is unchanged from the prior CPI Commentary.]*

*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 \$2,565 per troy ounce, based on February 2014 CPI-U-adjusted dollars, and \$10,823 per troy ounce, based on February 2014 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 February 2014 CPI-U inflation, the 1980 silver-price peak would be \$149 per troy ounce and would be \$630 per troy ounce in terms of February 2014 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

As shown in Table 1, on page 31 of [Hyperinflation 2014—The End Game Begins](#), 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 come close to fully compensating 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—February 2014.*** Real retail sales clearly continued to signal pending recession. Inflation-adjusted (based on the CPI-U) year-to-year change retail sales since World War II, shown in the fourth graph following, generally has signaled a pending recession whenever growth has fallen below 2.0%. It hit 0.4% in February 2014, following a downwardly revised 0.4% (previously 1.0%) in January 2014, generating the strongest recession signal seen since December 2007, the formal onset of the 2007 recession. Exceptions seen in the graph, such as in the mid-1990s, will be discussed in the upcoming second installment of the hyperinflation report (not all recessions have been official).

As covered in [Commentary No. 608](#), the nominal monthly gain of 0.27% in headline February 2014 retail sales, a revised January 2014 decline of 0.64% (previously down by 0.41%), and a revised decline of 0.31% (previously down by 0.12%) in December 2013, all were before accounting for inflation.

Based on today's reporting of a 0.10% headline gain in the February 2014 CPI-U, in the context of prior January and December CPI-U reporting, seasonally-adjusted real (inflation-adjusted) monthly retail sales rose by 0.17% in February, following a revised 0.78% (previously 0.55%) plunge in January 2014, and a revised 0.54% (previously 0.36%) decline in December.

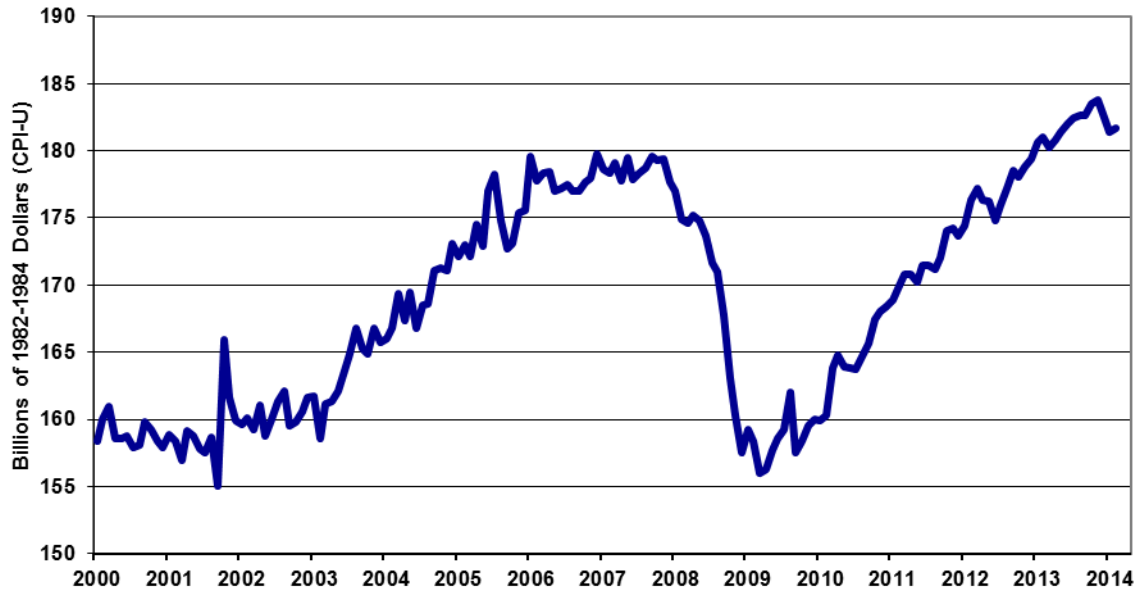
Year-to-year change in February 2014 real retail sales was a 0.37% gain, versus a 0.38% (previously a 0.99%) gain in January, and a revised 1.89% (previously 2.08%) gain in November, as shown in the second and fourth graphs following. In normal economic times, annual real growth falling below 2.0% would signal a pending recession. In the current circumstance, this signal is the most severe since December 2007, the formal onset of the 2007 recession. It likely will serve as an indicator of a renewed downturn in broad economic activity, if not an outright contraction in economic activity in the current quarter. With two months of first-quarter 2014 in place, first-quarter real retail sales are on track to show a 4.0% annualized contraction, following a 1.8% annualized gain in fourth-quarter 2013.

***Real Retail Sales—Downside Revisions and Plunging Activity.*** The first of the four graphs following shows the level of real retail sales activity (deflated by the CPI-U) since 2000; the second graph shows year-to-year percent change for the same period. The level of monthly activity turned down sharply in December 2013 and January 2014 with a minimal bounce-back in February. Year-to-year activity has plunged to a near-standstill.

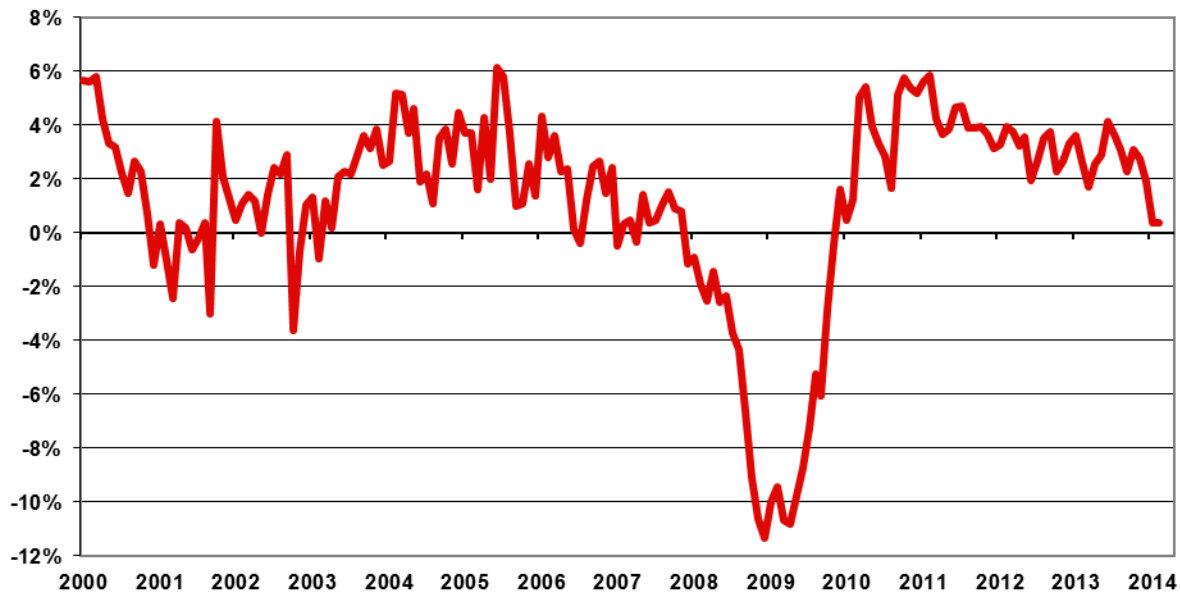
The third and fourth graphs show the level of and annual growth in real retail sales (and its predecessor series) in full post-World War II detail.

The gross domestic product (GDP) expanded beyond pre-recession levels twelve 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—broke above its pre-recession high in November 2013 reporting, but has fluttered since, still holding at an all-time high as of February 2014 reporting.

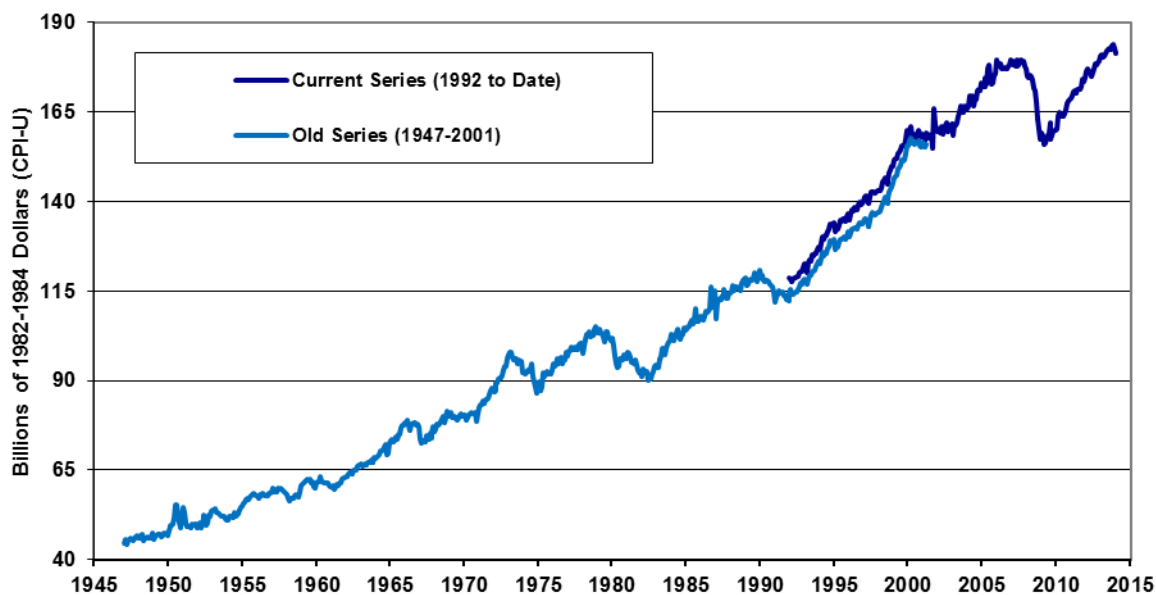
**Real Retail Sales (Deflated by CPI-U)**  
To Feb 2014, Seasonally-Adj. (ShadowStats, Census, BLS)



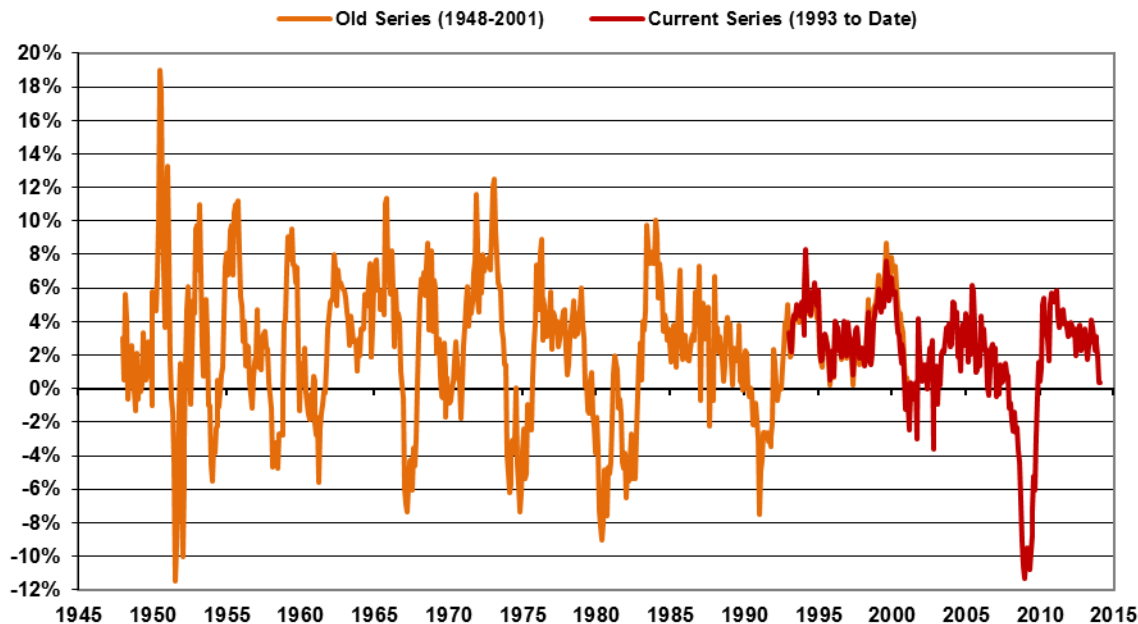
**Real Retail Sales Year-to-Year % Change**  
To Feb 2014, Seasonally-Adj. (ShadowStats, Census, BLS)



**Real Retail Sales (Deflated by CPI-U)**  
To Feb 2014, Seasonally-Adj. (ShadowStats, St. Louis Fed)



**Real Retail Sales Yr/Yr Percent Change**  
To Feb 2014, Seasonally-Adj. (ShadowStats, St. Louis Fed)



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 \(No. 485\)](#), and as will be updated in the second installment of the hyperinflation report, 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 has turned increasingly 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 also discussed in [Commentary No. 608](#), 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 March and 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 continue to trend meaningfully lower, in what eventually will gain recognition as a formal new or double-dip recession.

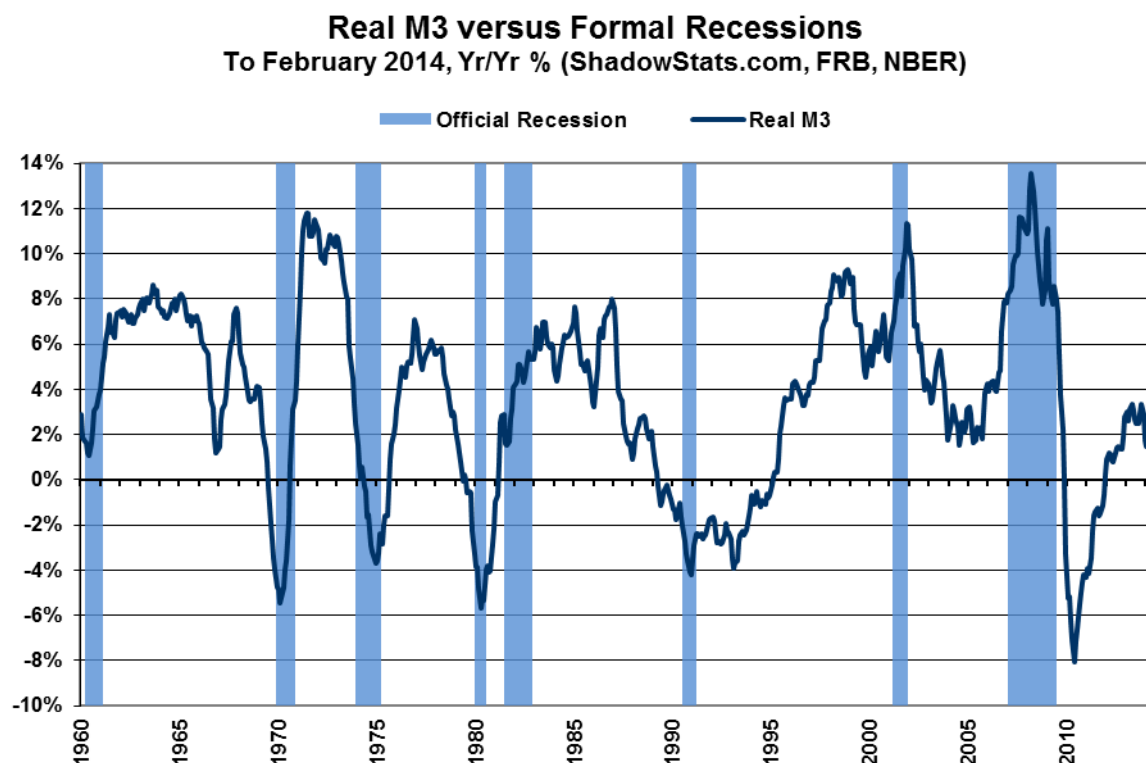
***Real (Inflation-Adjusted) Average Weekly Earnings—February 2014.*** Coincident with today’s February 2014 CPI-W release, the BLS also published real average weekly earnings for February. In the production and nonsupervisory employees series—the only series for which there is a meaningful history—headline real average weekly earnings (deflated by the CPI-W) fell by 0.21% in February, following an unrevised increase of 0.16% in January.

Year-to-year, February 2014 real earnings growth slowed to 0.04%, from 0.45% in January 2013. Both the monthly and annual fluctuations in this series are irregular, but current reporting remains well within the normal bounds of volatility. Prior-period revisions usually are due to the instabilities in the BLS monthly surveys.

The regular graph of this series is 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—February 2014.*** 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 holding in positive territory. As shown in the accompanying graph—based on February 2014 CPI-U reporting and the latest ShadowStats-

Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for February 2014 increased to 2.2% from 1.5% in January. The pickup in the February annual growth rate for real M3 again reflected a combination of a higher nominal annual growth rate in M3 and a lower annual CPI-U inflation rate.



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 may be underway, and that eventually could lead to official recognition of a “new” or 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. This will be discussed more extensively in the soon to be published second installment of [Hyperinflation 2014—The End Game Begins](#).



## RESIDENTIAL CONSTRUCTION (February 2014)

**Headline Housing-Starts Decline Was Not Significant.** Reporting in the housing starts series remains highly unstable, and it generally has been unstable enough in recent years that headline month-to-month changes in activity rarely have been statistically significant. Exacerbating that circumstance, the housing data—particularly housing starts and new home sales out of the Census Bureau—appear to have been distorted heavily by the October government shutdown and its aftermath in data-gathering and reporting processes. That was seen in the initial headline monthly surge of 23% in November 2013 housing starts activity, which remains largely intact.

Since then, monthly data generally have been reported on the downside, although the new numbers continue to be unstable, subject to heavy revisions, and again rarely are statistically significant. An upcoming annual revision to the housing data likely will result in the reporting of a smoother historical series. Going forward, monthly reporting should remain volatile, albeit at lower levels.

As discussed in [Commentary No. 608](#), there has been no change in underlying consumer-liquidity fundamentals. There is nothing that would support a sustainable turnaround in the housing industry or general economic activity. There never was an economic recovery, and there is no recovery underway, just general bottom-bouncing that broadly is turning down anew.

**February 2014 Housing-Starts Reporting.** The Census Bureau reported today, March 18th, a statistically-insignificant, month-to-month headline decline in seasonally-adjusted February 2014 housing starts of 0.2% +/- 14.2% (all confidence intervals are at the 95% level). The monthly decline was in the context of an upside revision to January's housing starts level of 3.3%, with a narrowing of January's headline decline to 11.2% from the previously estimated 16.0%. Net of prior-period revisions, February housing starts rose by a still-statistically-insignificant 3.1%.

Based on February's reporting, the housing starts series is on track to show an annualized quarterly contraction of 34.2% in first-quarter 2014.

Year-to-year change in the seasonally-adjusted, aggregate February 2014 housing-starts measure was a contraction, down by a statistically-insignificant 6.4% +/- 11.6%. That was against a revised 1.2% annual gain (previously an annual decline of 2.0%) in January.

Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with one-unit housing starts that generally are for individual consumption, resulting in new home sales, versus multi-unit starts that generally reflect the building of rental and apartment units.

*By Unit Category (See Graphs in Opening Comments).* Housing starts for single-unit structures in February rose by a statistically-insignificant 0.3% +/- 14.0% for the month, versus a revised 13.2% decline (previously down by 15.9%) in January. February's year-to-year decline of 10.6% +/- 11.8% also was statistically insignificant, versus a revised 5.0% (previously 6.7%) annual decline in January.

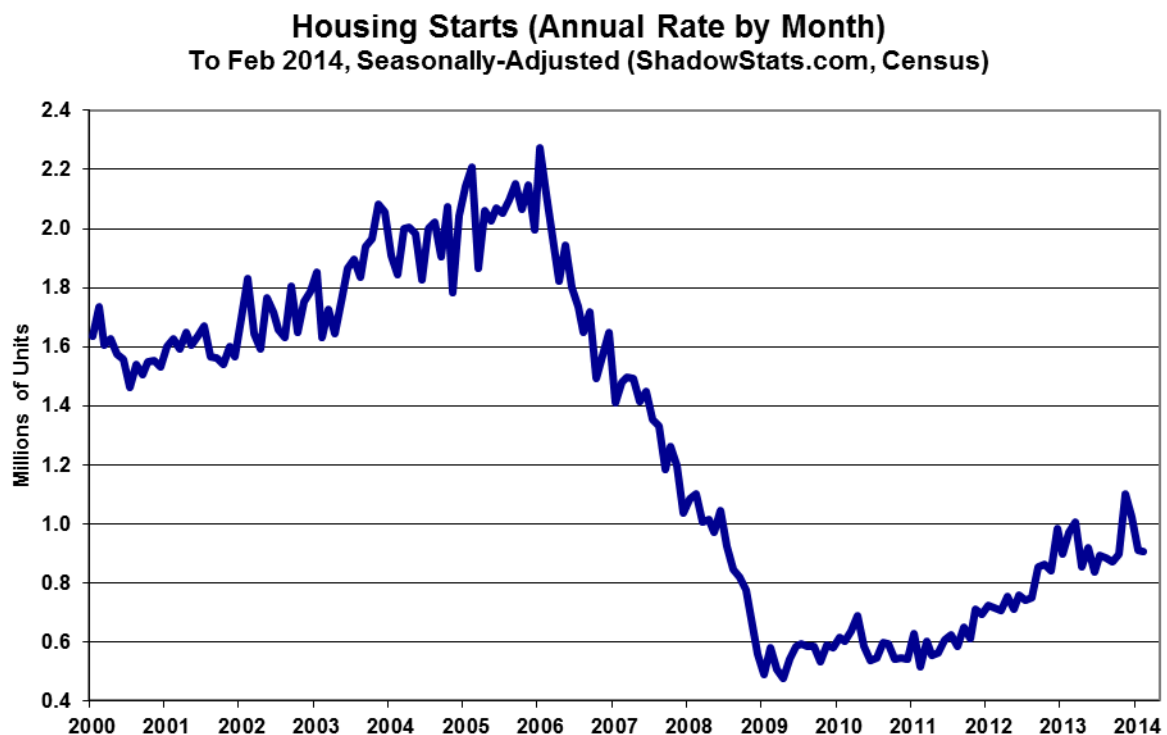
Reporting of housing starts for apartment buildings (generally 5 units or more) showed declining activity for the third month, down by a statistically-insignificant 2.5% +/- 31.0%, versus a revised decline of 4.2%

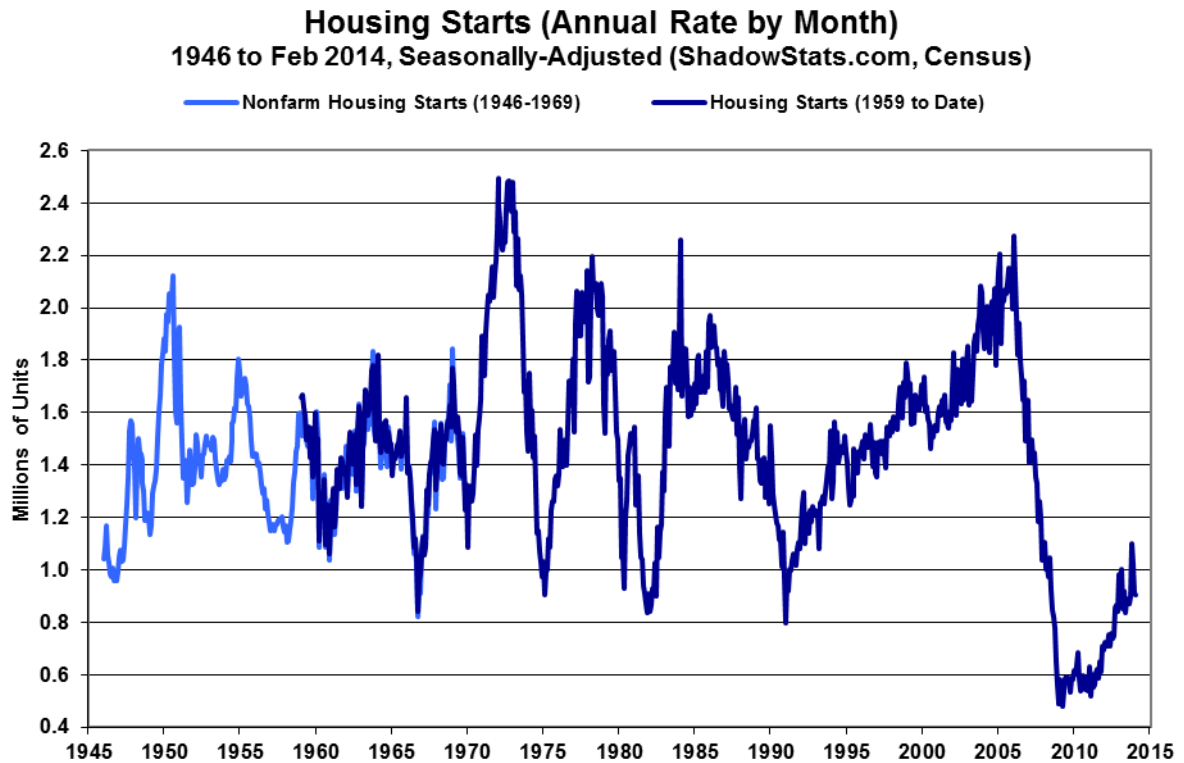


(previously down by 12.8%) in January. February's year-to-year gain of 1.6% +/- 32.3% was not statistically-significant. January's year-to-year activity revised to a 17.2% gain (previously up by 9.9%).

Expanding the multi-unit housing starts category to include "2 to 4 units" plus "5 units or more," usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the "2 to 4 units" category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category. Accordingly, the aggregate, statistically-insignificant February monthly decline of 0.2% was composed of a 0.3% monthly gain in one-unit housing starts, combined with a 1.2% monthly decline in starts of multiple-unit structures (2 units or more, including the "5 units or more" category). Again, this series is graphed in the *Opening Comments* section.

**Graphs of Aggregate Housing Starts Activity.** The official reporting of housing starts is expressed at an annualized monthly pace of starts, which was 907,000 in February 2014, versus a revised 909,000 in January 2014. Those details are shown in the preceding graphs. Where the magnitude of monthly activity more realistically is reflected at the actual monthly rate of 75,583 in February, versus the annualized headline 907,000, the monthly rate is used in the scales of the graphs in the *Opening Comments* section. With either scale, the appearance of the graph and the monthly and annual percent changes are the same.





The record monthly low seen for the present aggregate series was in April 2009, which was down 79% from the January 2006 pre-recession peak. Against the downside-spiked low in April 2009, the February 2014 headline number was up by 90%, but it still was down by 60% from the January 2006 series high.

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## WEEK AHEAD

**Much Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead.** Although shifting to the downside, market expectations generally still appear to be overly optimistic as to the economic outlook. Expectations should continue to be hammered, though, by continuing, downside corrective revisions and continued, disappointing headline economic activity. The initial stages of that process have been seen in the recent headline reporting of most major economic series.

That corrective circumstance and underlying weak economic fundamentals remain highly suggestive of deteriorating business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend until such time as the unfolding “new” recession receives general recognition.

Stronger inflation reporting remains likely. Upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing global political instabilities. The dollar faces pummeling from continuing QE3, the ongoing U.S. fiscal-crisis debacle, a weakening U.S. economy and deteriorating U.S. and global 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. Ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-evolving economic turmoil of the last 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:***

**Existing- and New-Home Sales (February 2014).** February 2014 existing-home sales are due for release on Thursday, March 20th, from the National Association of Realtors, with the February new-home sales report from the Census Bureau due on Tuesday, March 25th. With these highly volatile and unstable series, whether existing or new sales, a pattern of stagnation or intensifying downturn appears to be in play for both. While monthly changes in home-sales activity usually are not statistically-significant, still-unstable reporting and revisions (both likely to the downside) remain a fair bet for the new-home sales series, which was so heavily disrupted as a result of the October shutdown of the federal government.

**New Orders for Durable Goods (February 2014).** The reporting of February 2014 new orders for durable goods is scheduled for Wednesday, March 26th, by the Census Bureau. Other than for the continuing sharp and irregular volatility in commercial aircraft orders, new orders generally have been stagnant-to-down. Some intensification of the recent downside movement in orders is likely, at least in the next month or two, coincident with slowing activity currently seen in other major indicators, such as retail sales.

**Gross Domestic Product—GDP (Fourth-Quarter 2014, Third Estimate, Second Revision).** The Bureau of Economic Analysis (BEA) has scheduled release of the third estimate of fourth-quarter 2013 GDP for Thursday, March 27th. Aside from some downside pressure from lowered retail sales estimates,

revisions to the previous 2.4% headline growth estimate should be minor, well within the scope of statistical noise.

Of some interest could be the initial estimates of fourth-quarter 2013 gross national product (GNP) and gross domestic income (GDI). Where GNP is the broadest economic measure, with GDP being GNP net of the trade flows in factor income (interest and dividend payments); and where GDI is the theoretical income-side equivalent to the GDP's consumption-side; growth rates should be similar. Nonetheless, unusual reporting patterns often have been generated by these series against their unstable and heavily-massaged GDP counterpart.

**Industrial Production (Annual Benchmark Revision).** The Federal Reserve has scheduled release of its annual benchmark revision to the index of industrial production for Friday, March 28th. The revision will restate the series back to 1972, including new information, new methodologies and revamped seasonal factors. New data likely will restate recent economic history to the downside. ShadowStats will publish an analysis of the revamped series.

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