

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

**COMMENTARY NUMBER 643**  
**June CPI, Real Retail Sales and Earnings, Existing-Home Sales**  
**July 22, 2014**

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**Quarterly Consumer Inflation of 3.0% at Three-Year High**  
**Inflation Wiped Out Headline Gain in June Retail Sales**  
**Real Earnings Fell for Third Straight Month**  
**June Annual Inflation: 2.1% (CPI-U), 2.0% (CPI-W), 9.8% (ShadowStats)**  
**Existing-Home Sales Fell Year-to-Year for 8th Straight Month**  
**Negative Surprises Likely in Next Week's GDP Reporting and Revisions**

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*PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Wednesday, July 23rd, covering the outlook for the July 30th initial estimate of second-quarter GDP and the accompanying GDP benchmark revisions, with a subsequent Commentary on Friday, July 25th, covering June new orders for durable goods and new home sales.*

*Best wishes to all — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Second-Quarter GDP Contraction Could Surface in Revisions to an Initial Estimate of Positive Growth Estimate.** The outlook for initial second-quarter 2014 GDP reporting, in conjunction the GDP benchmark revisions due for release on July 30th, and the updated *Hyperinflation Summary Outlook*, both

planned initially for this *Commentary*, will be published instead in a new and separate *Commentary No. 644*, tomorrow, July 23rd. The schedule change was made in the interests of posting today's (July 22nd) *Commentary* on as timely a basis as possible, and not dragging it over into publication on July 23rd, as well.

As to the *Hyperinflation Outlook*, nothing has changed.

**GDP Reporting.** As to an overview of the broad economy, upcoming GDP benchmark revisions and the pending first estimate of second-quarter 2014 GDP, downside revisions are likely to recent, historical GDP reporting, including a further downside adjustment to first-quarter 2014 GDP, which currently shows an annualized quarterly contraction of 2.9% (-2.9%).

The second-quarter 2014 GDP change also should be negative. Although the contraction is there in the underlying detail, its reporting now is most likely to be seen in the early revisions to the second-quarter GDP, instead of in the initial headline reporting of July 30th. With consensus estimates still around a 3.2% positive level, the Bureau of Economic Analysis (BEA)—ever sensitive to the consensus and the markets—most likely will repeat the reporting pattern seen for the first-quarter 2014 estimate, showing a well-below-consensus headline growth rate in the “advance” reporting. Subsequent revisions would take the headline quarterly change negative. In any event, the initial estimate of real second-quarter GDP activity most likely will be a negative surprise for market expectations, not recovering the level of fourth-quarter 2013 GDP activity. More detail will follow with tomorrow's comments.

**New ExpliStats Detail.** ShadowStats affiliate [www.ExpliStats.com](http://www.ExpliStats.com) has posted new material, providing various drill-down and graphics options for the official [Consumer Inflation](#) numbers, as well as detail on the most recent [Payroll Trend Analysis](#), showing the reporting biases and trends built into the payroll employment seasonal-adjustment model, which will be used by the Bureau of Labor Statistics (BLS) in estimating headline July 2014 payroll employment (due for release on August 1st).

**Today's Commentary.** The balance of this *Commentary* covers the reporting of the June consumer price index, related real retail sales and earnings series, and June existing-home sales.

**Consumer Price Index—June 2014—Quarterly Consumer Inflation at a Three-Year High.** Stronger headline consumer inflation in recent months not only has pushed unadjusted year-to-year annual CPI inflation to 2.0% and above, but also has spiked seasonally-adjusted, annualized quarterly CPI inflation to 3.0% and above, hitting the highest quarterly consumer inflation pace since second-quarter 2011.

**CPI-U.** The headline, seasonally-adjusted CPI-U for June 2014 rose month-to-month by 0.26% (0.19% unadjusted), versus 0.35%, rounds to 0.4% (0.35% unadjusted, rounds to 0.3%) in May. For the second time this calendar year, seasonal adjustments provided a boost to the headline inflation number.

Encompassed by the headline June 2014 CPI-U gain of 0.26% (up by 0.19% unadjusted), aggregate energy inflation in June was up by an adjusted 1.60% (up by an unadjusted 1.51%) for the month. In the other major CPI sectors, adjusted food inflation was up by 0.04% for the month [down by 0.02% (-0.02%) unadjusted], while “core” inflation rose by an adjusted 0.13% (up by 0.05% unadjusted). Core inflation also showed unadjusted year-to-year inflation of 1.93% in June 2014, versus 2.03% in May.

The annualized quarterly pace of seasonally-adjusted CPI-U inflation was 3.03%, the highest level since second-quarter 2011. That followed inflation of 1.91% in first-quarter 2014 and 1.14% in fourth-quarter 2013. Not seasonally adjusted, June 2014 year-to-year inflation for the CPI-U was a gain of 2.07%, versus 2.13% in May.

**CPI-W.** The June 2014 headline, seasonally-adjusted CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose by 0.30% (up by 0.21% unadjusted), versus an adjusted gain of 0.34% (up by 0.33% unadjusted) in May.

The annualized quarterly pace of seasonally-adjusted CPI-W inflation was 3.07%, also the highest level since second-quarter 2011. That followed inflation of 1.79% in first-quarter 2014 and 0.96% in the fourth-quarter 2013. Unadjusted, June 2014 year-to-year CPI-W inflation was 2.04%, versus 2.10% in May.

**Chained-CPI-U.** Initial reporting of unadjusted year-to-year inflation for the June 2014 C-CPI-U was 1.95%, versus 1.98% in May.

**Alternate Consumer Inflation Measures.** The ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—annual inflation was roughly 5.7% in June 2014, the same as in May 2014. The ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, eased to about 9.8%, versus roughly 9.9% in May.

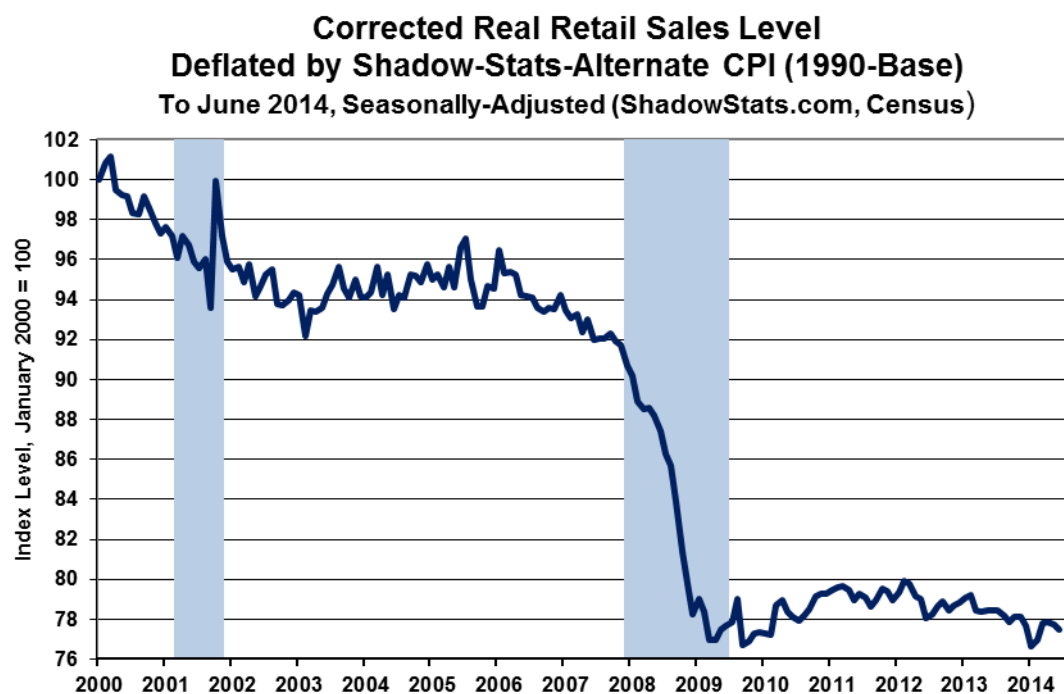
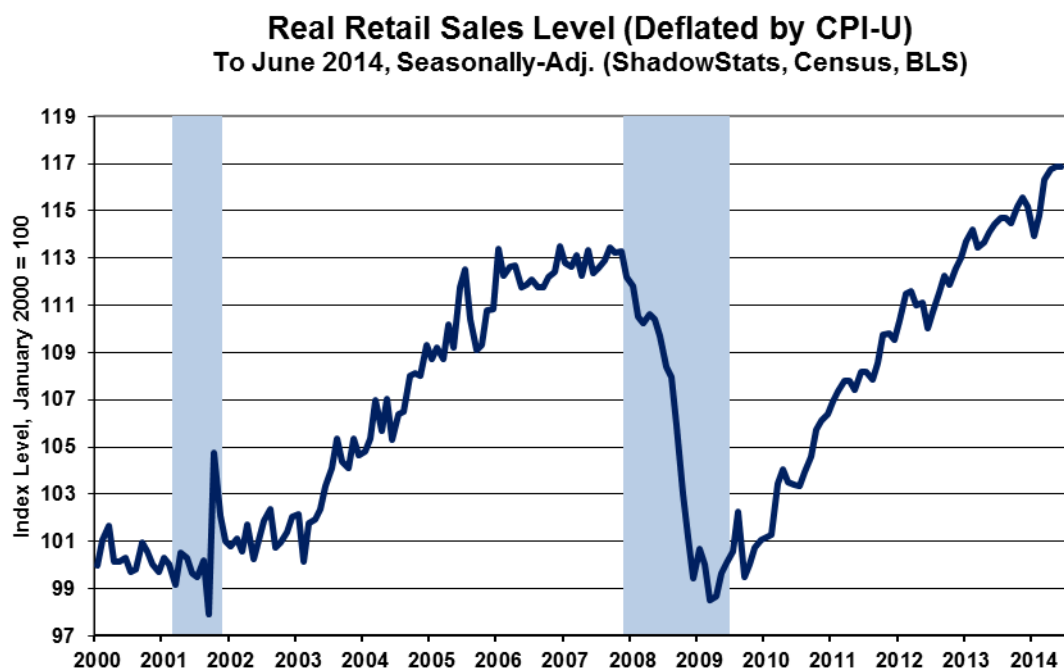
**Real (Inflation-Adjusted) Retail Sales—June 2014—Inflation Wiped Out Headline Nominal Gain in June Sales.** In nominal terms, before adjustment for inflation, headline monthly retail sales rose by 0.25% in June, versus a revised 0.48% gain in May ([Commentary No. 640](#)). Based on today's reporting of a 0.26% headline monthly gain in the June 2014 CPI-U, and in the context of prior May CPI-U reporting, seasonally-adjusted real (inflation-adjusted) monthly retail sales notched lower by 0.01% in June (-0.01%), following a revised 0.13% gain in May.

For second-quarter 2014, the annualized pace of quarterly growth in real retail sales was 6.42%, versus an annualized contraction of 0.97% (-0.97%) in first-quarter 2014.

Year-to-year change in June 2014 real retail sales was a 2.14% gain, versus a revised 2.42% annual gain in May. In normal economic times, annual real growth falling below 2.0% would signal a pending recession. That signal had been given recently and was approached anew in initial reporting for June 2014. In the current circumstance, the signal likely will serve as an indicator of renewed downturn in broad economic activity.

As official consumer inflation continues 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 *Real Earnings* and *Consumer Liquidity Issues* sections—these data should continue to trend meaningfully lower, in what rapidly should gain recognition as a formal new or double-dip recession.

The regular graphs of real retail sales activity, both as to level and in terms of year-to-year change, are included in the *Reporting Detail* section. A graph of an index of real retail sales activity and the latest “corrected” real retail sales graph, follow here.

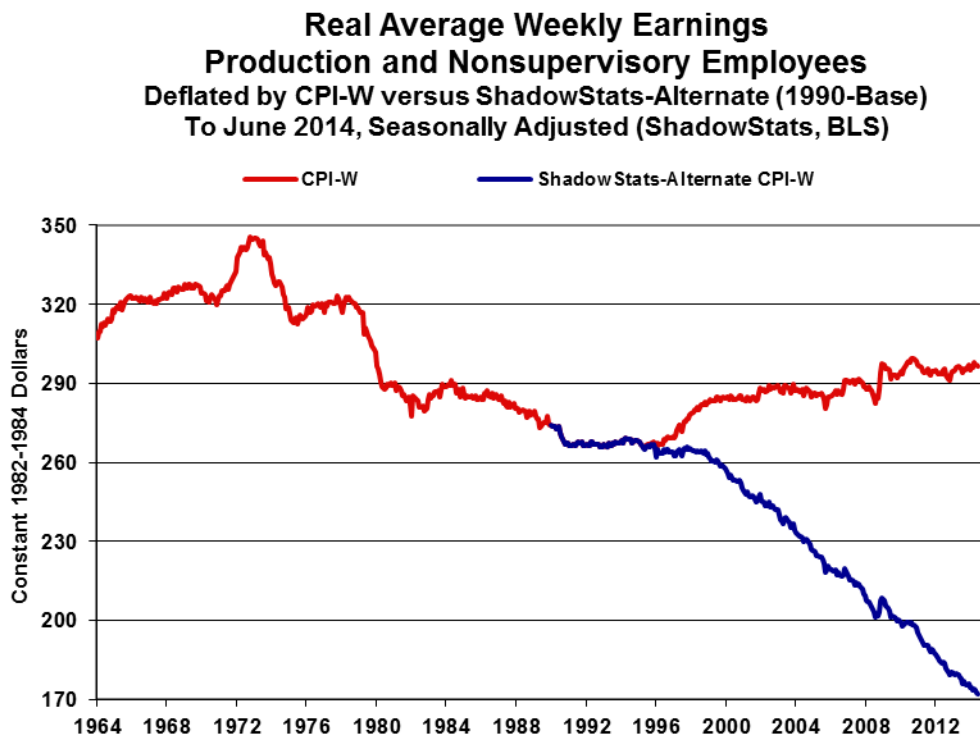


The first of the two graphs preceding reflects real retail sales as usually reported by the St. Louis Fed, deflated by the CPI-U, but it is indexed to January 2000 = 100. ShadowStats did the deflation using the

June 2014 CPI-U and nominal retail sales releases. As seen in that graph, official real retail sales recently recovered its pre-recession high, declined into 2014, hit a new post-recession high in May, as revised, and then flattened out in June. The headline recovery, though, is a statistical illusion. Where the CPI-U understates inflation (see the [Public Comment on Inflation](#)), its use in calculating real retail sales has the effect of overstating actual inflation-adjusted activity.

**Corrected Real Retail Sales.** The apparent “recovery” in the headline real retail sales series—stalled at the moment—is due to the understatement of the rate of inflation used in deflating the retail sales and the other series. As discussed more fully in *Chapter 9* of [2014 Hyperinflation Report—Great Economic Tumble](#) – *Second Installment*, deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth.

Instead of being deflated by the CPI-U, the “corrected” real retail sales numbers—in the second of the two preceding graphs—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 deepened, so far, into 2014.



**Real (Inflation-Adjusted) Average Weekly Earnings—June 2014—Third Monthly Decline.** Coincident with the June 2014 CPI-W release, the BLS also published real average weekly earnings for June. 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 for the third straight month, down by 0.11% (-0.11%) in June, versus a revised decline of 0.14% (-0.14%) in May, and a revised 0.19% decline (-0.19%) in April.

Year-to-year and seasonally-adjusted, June 2014 real average weekly earnings rose by 0.24%, versus an unrevised 0.28% gain in May, and a revised 0.32% gain in April. 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 accompanying (preceding) regular 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.

**Existing-Home Sales—June 2014—Despite Third Monthly Gain, Existing Home Sales Fell Year-to-Year for the Eighth Month.** The headline 2.6% month-to-month gain in June existing home sales was in the context of a small upside revision to May's estimated level of activity. Net of the prior-period revision, June sales were up by 3.1% for the month, reflecting the third straight increase in seasonally-adjusted monthly sales. Nonetheless, the June reading was down by 2.3% year-to-year—the eighth straight annual decline—and down by 6.3% from the near-term peak of activity in July 2013. June 2014 sales activity, at the headline annual sales pace of 5,040,000, also was down by 30.7% from the June 2005 pre-recession peak in activity.

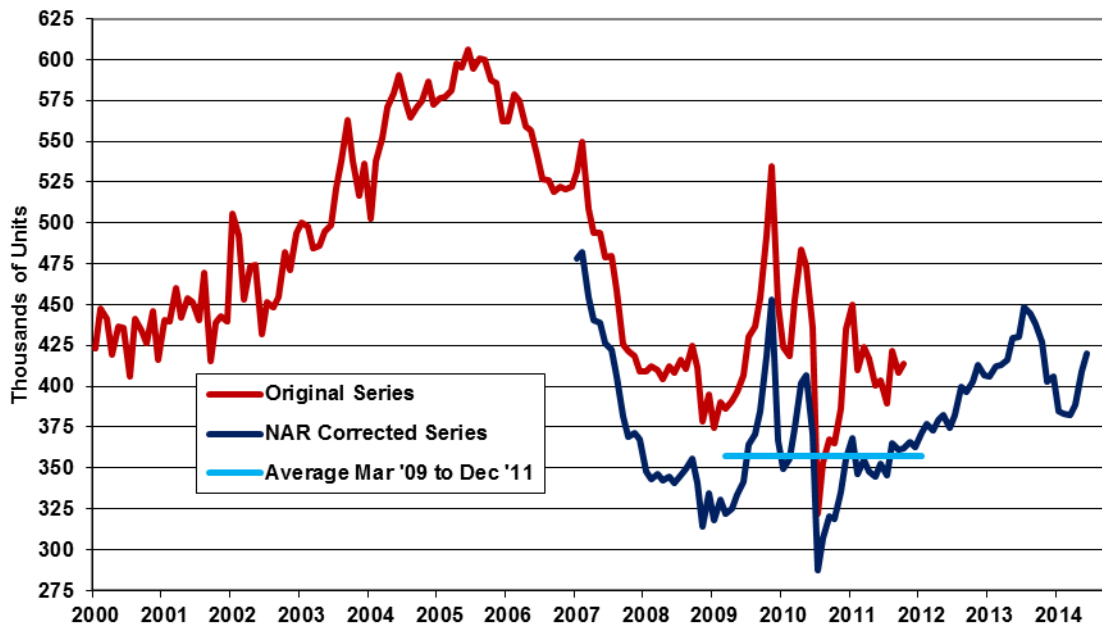
**Headline June Existing-Home Sales Rose by 2.6% for the Month, Fell 2.3% (-2.3%) Year-to-Year.** June 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a headline, seasonally-adjusted 2.6% month-to-month gain, following a revised 5.4% gain in May. Net of prior-period revisions, June sales gained 3.1% for the month

On a year-to-year basis, June 2014 annual sales contracted by 2.3% (-2.3%), versus a revised 4.7% decline (-4.7%) in May. June's annual contraction was the eighth consecutive month where headline sales were reported below those of the year before.

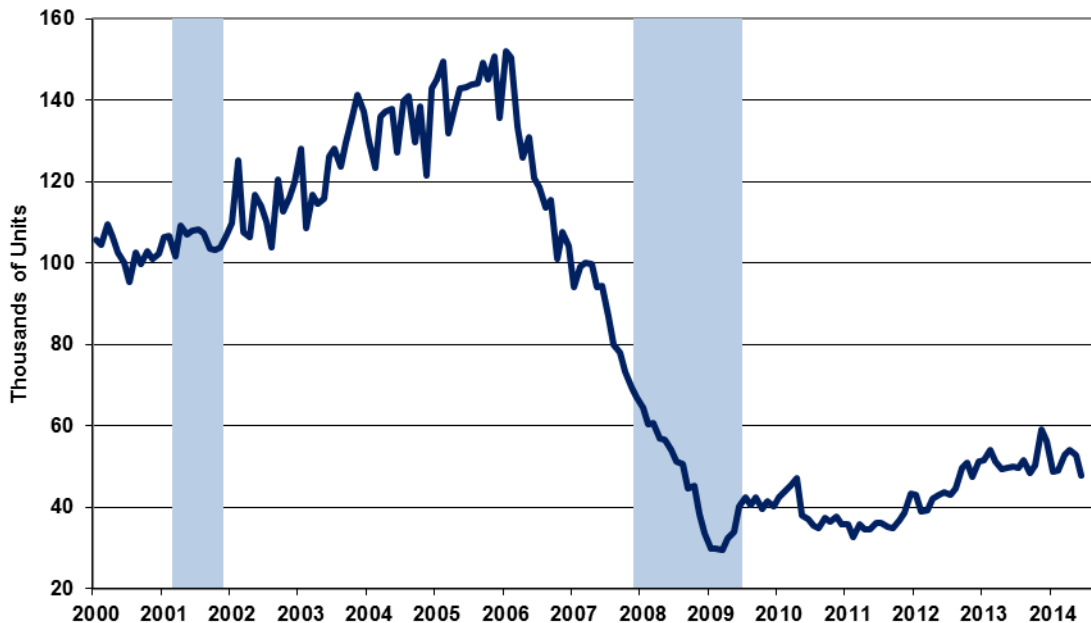
The NAR estimated the portion of total sales in “distressed” properties in June 2014 held at the May levels of 11% (8% foreclosures, 3% short sales). Reflecting continuing lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money into the existing-housing market, the NAR also estimated that all-cash sales in June 2014 were 32%, the same as in May 2014, but up from 31% in June 2013.



**Existing Home Sales (Not-Annualized Monthly Level)**  
To June 2014, Seasonally Adjusted (ShadowStats.com, NAR, HUD)



**Single-Unit Housing Starts (Monthly Rate)**  
To June 2014, Seasonally-Adjusted (ShadowStats.com, Census)

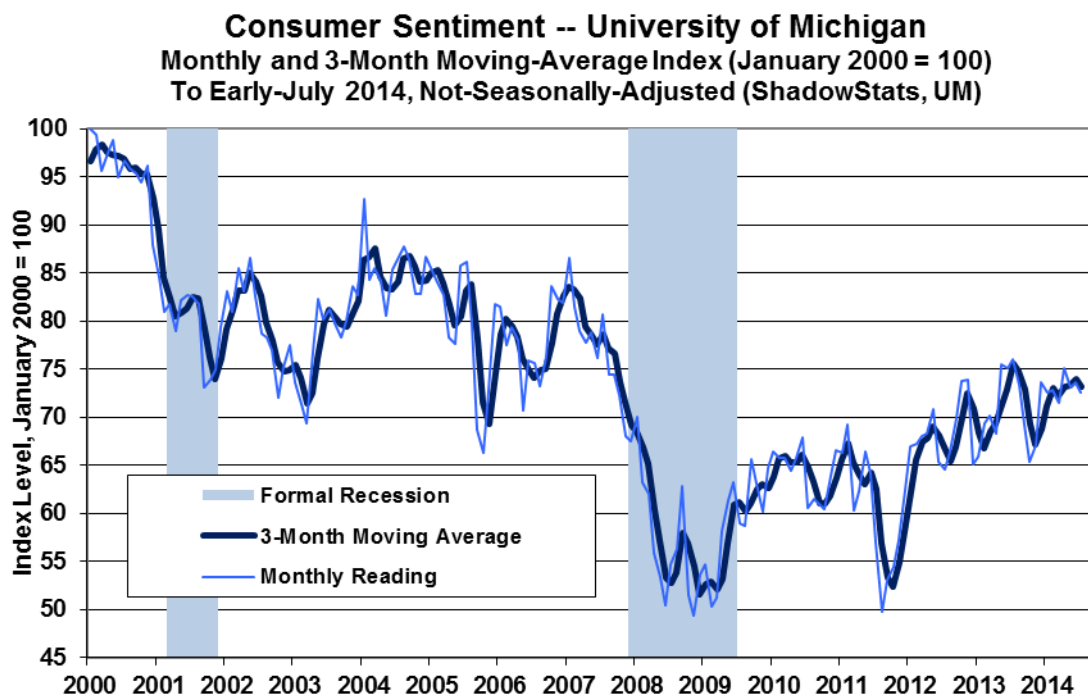


**Existing-Home Sales Graph.** Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into renewed downturn, as seen in the

accompanying graph. The data quality, however, remains questionable. The regular existing-home sales graph is shown along with a graph of the latest housing starts data for single-unit construction (see [Commentary No. 642](#)), for comparison. Where average existing-home sales activity rose in second-quarter 2014, up by a simple (not annualized) quarterly increase of 5.8% versus first-quarter 2014, it did not recover the level of fourth-quarter activity. Where first-quarter 2014 activity was down by 6.9% versus fourth-quarter 2013, second-quarter 2014 activity still was 1.5% below fourth-quarter 2013 and was down by 4.5% from second-quarter 2013, the year before.

**Consumer Liquidity Issues Continue Restraining Housing and Retail Sales Activity.** As discussed and graphed in the [Commentary No. 639](#) (the graph of the University of Michigan's consumer sentiment has been updated through a downturn in early-July, per the accompanying plot), the last six-plus years of economic collapse and stagnation have been dominated by a consumer beset with intense, structural-liquidity problems, which also have impacted the consumer's outlook. Consumer confidence and sentiment continue to hold deep in historical recession territory.

Without real, or inflation-adjusted, growth in income (see *Real Earnings* section), and without the ability or willingness to take on meaningful new debt, the consumer simply does not have, and has not had the ability to sustain real growth in housing, retail sales or in personal-consumption activity that dominates the headline change in GDP. There is nothing that would support a sustainable turnaround in the housing industry, retail sales 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.





*[For further details on the June CPI, real retail sales and earnings, and existing-home sales, see the Reporting Detail section. Drill-down and various graphics options for the CPI also are available at ShadowStats-affiliate [www.ExpliStats.com](http://www.ExpliStats.com).]*

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## HYPERINFLATION WATCH

**New Hyperinflation Report Summary, Tomorrow.** The long-standing hyperinflation and economic outlooks were updated with the publication of [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), on April 2nd, and publication of [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), on April 8th, along with ongoing updates in the regular *Commentaries*. The pending crises also were reviewed in [Commentary No. 639](#). This section will be updated fully with tomorrow's July 23rd *Commentary No. 644*. Nothing of substance has changed from prior writings.

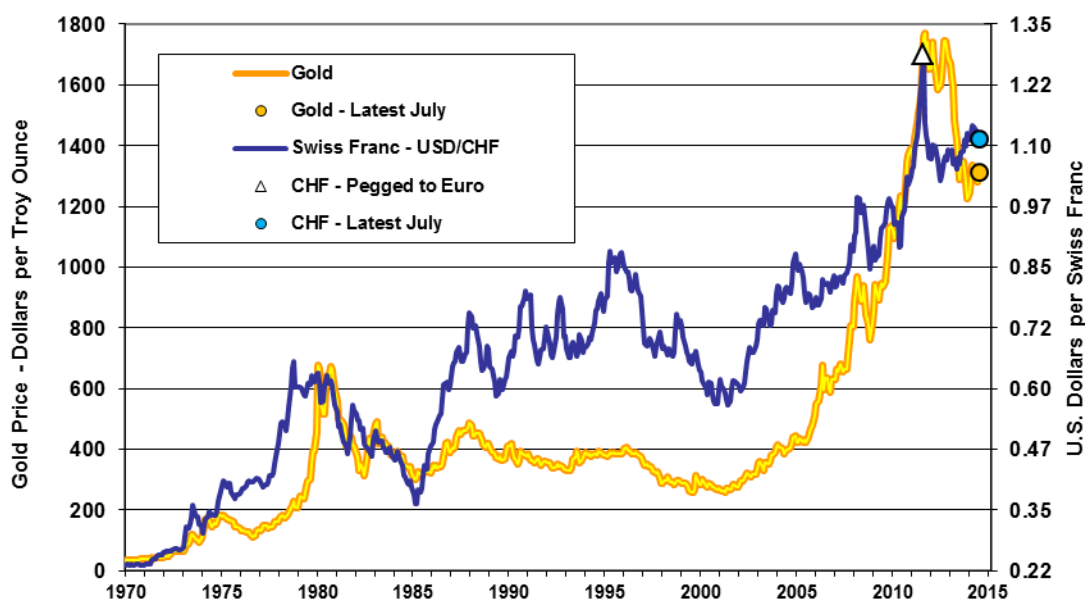
**Monthly Gold Graphs.** Following are the graphs of gold prices versus the Swiss franc, oil prices and silver prices that usually accompany the *Commentary* on the monthly CPI release. Volatile markets continue, amidst rapidly mounting global political tensions, a rapidly weakening U.S. economy and nascent recognition of rising inflation. Related market fears also center on worsening fiscal and monetary instabilities, and deteriorating domestic political circumstances. All these issues have sharply negative implications for the U.S. dollar, which remains a good bet to be an early casualty. Precious metals and oil prices would benefit from a weakened U.S. dollar.

As discussed in the two installments of the *2014 Hyperinflation Report*, linked above, 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 or two. More-recent oil price volatility has reflected intensifying global political instabilities, but oil prices also will face significant, further upside pressure as the U.S. dollar comes under heavy selling pressure.

The “latest July” points in the following graphs reflect approximate conditions as of early-afternoon New York time, July 22nd.

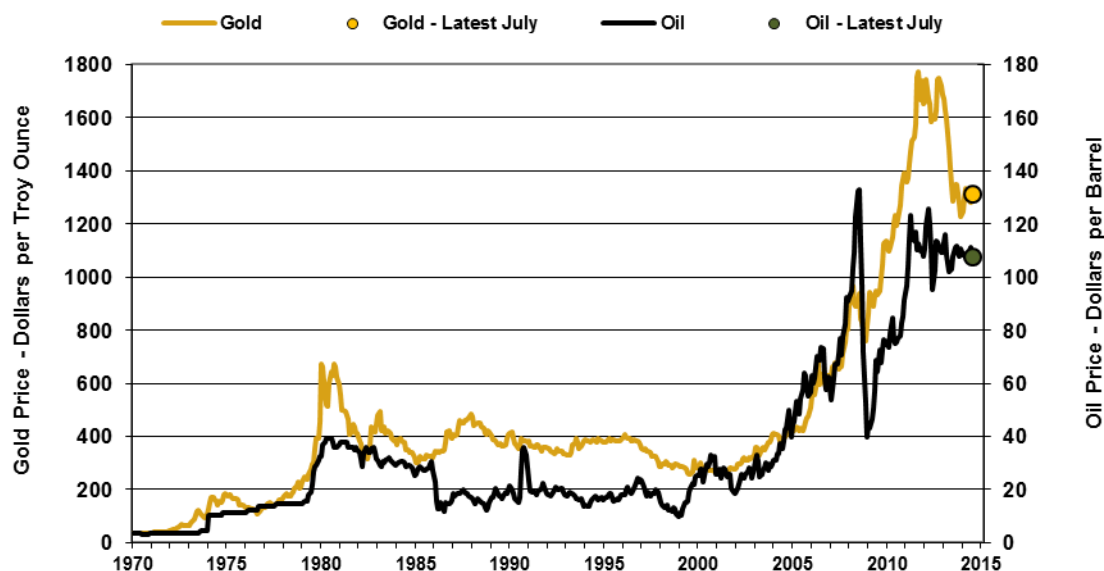
### Gold versus Swiss Franc (CHF)

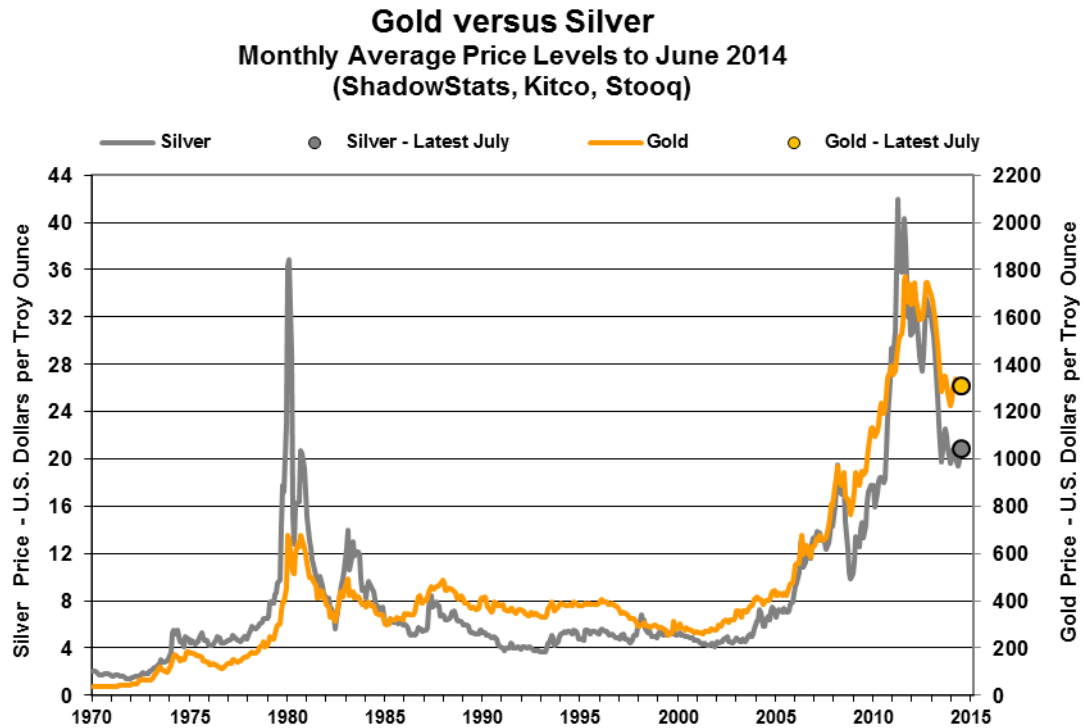
Monthly Average Price or Exchange Rate to June 2014  
(ShadowStats.com, Kitco, FRB, WSJ)



### Gold versus Oil (Brent/WTI)

Monthly Average Prices to June 2014, Pre-1987 is WTI  
(ShadowStats, Kitco, DOE)





## REPORTING DETAIL

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

**Quarterly Consumer Inflation at a Three-Year High.** Stronger headline consumer inflation in recent months not only has pushed year-to-year annual CPI inflation (unadjusted) to 2.0% and above, but also has spiked annualized quarterly CPI inflation (seasonally-adjusted) to 3.0% and above, hitting the highest quarterly consumer inflation rate since second-quarter 2011.

Going forward, and as discussed in [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), risks of a massive flight from the U.S. dollar threaten upside energy and global-commodity inflation, which would drive 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—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, July 22nd, that the headline, seasonally-adjusted CPI-U for June 2014 rose month-to-month by 0.3% (0.26% at the second decimal point). The May CPI-U had increased by 0.4% (0.35% at the second decimal point). On a not seasonally-adjusted basis, the June CPI-U rose by 0.19%, where May CPI-U rose by 0.35% (rounds to 0.3%). For the second time this calendar year, seasonal adjustments provided a boost to the headline inflation number.

*Monthly Gasoline Prices.* The BLS used a gain of 0.3% in not-seasonally-adjusted gasoline prices for June, below the 0.4% increase indicated by the more-comprehensive, industry-based surveying of the Department of Energy. In line with last year's numbers showing a seasonally-adjusted spike to gasoline, the adjusted gain in June 2014 gasoline prices was 3.3%. Seasonal adjustments were positive for headline energy inflation, food inflation and "core" inflation, net of food and energy price increases.

*Major CPI Groups.* Encompassed by the headline June 2014 CPI-U gain of 0.26% (up by 0.19% unadjusted), aggregate energy inflation in June was up by an adjusted 1.60% (up by an unadjusted 1.51%) for the month. In the other major CPI sectors, adjusted food inflation was up by 0.04% for the month [down by 0.02% (-0.02%) unadjusted], while "core" inflation rose by an adjusted 0.13% (up by 0.05% unadjusted). Core inflation also showed unadjusted year-to-year inflation of 1.93% in June 2014, versus 2.03% in May.

*Annualized Quarter-to-Quarter CPI-U.* The annualized quarterly pace of seasonally-adjusted CPI-U inflation was 3.03%, the highest level since second-quarter 2011. That followed inflation of 1.91% in first-quarter 2014 and 1.14% in the fourth-quarter 2013.

*Year-to-Year CPI-U.* Not seasonally adjusted, June 2014 year-to-year inflation for the CPI-U was a gain of 2.07%, versus 2.13% in May, 1.95% in April, 1.51% in March and 1.13% in February.

Year-to-year, CPI-U inflation would increase or decrease in next month's July 2014 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.17% gain in the monthly inflation reported for July 2013. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for July 2014, the difference in July's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the June 2014 annual inflation rate of 2.07%.

*CPI-W.* The June 2014 headline, seasonally-adjusted CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose by 0.30% (up by 0.21% unadjusted), versus an adjusted gain of 0.34% (up by 0.33% unadjusted) in May, versus an adjusted gain of 0.29% (up by 0.38% unadjusted) in April, versus an adjusted 0.19% gain (up by 0.73% unadjusted) in March, and an adjusted 0.05% gain in February (up by 0.36% unadjusted).

*Annualized Quarter-to-Quarter CPI-W.* The annualized quarterly pace of seasonally-adjusted CPI-W inflation was 3.07%, also the highest level since second-quarter 2011. That followed inflation of 1.79% in first-quarter 2014 and 0.96% in the fourth-quarter 2013.

Unadjusted, June 2014 year-to-year CPI-W inflation was 2.04%, versus 2.10% in May, up from 1.96% in April, 1.41% in March and 0.98% in February.

*Chained-CPI-U.* Initial reporting of unadjusted year-to-year inflation for the June 2014 C-CPI-U was 1.95%, versus 1.98% in May, and up from 1.80% in April, 1.36% in March and 0.97% in February.

*[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 inflation was roughly 5.7% in June 2014, the same as in May 2014. The ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, eased to about 9.8% (9.81% for those using the second decimal point) in June, versus roughly 9.9% in May.

*[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.)*

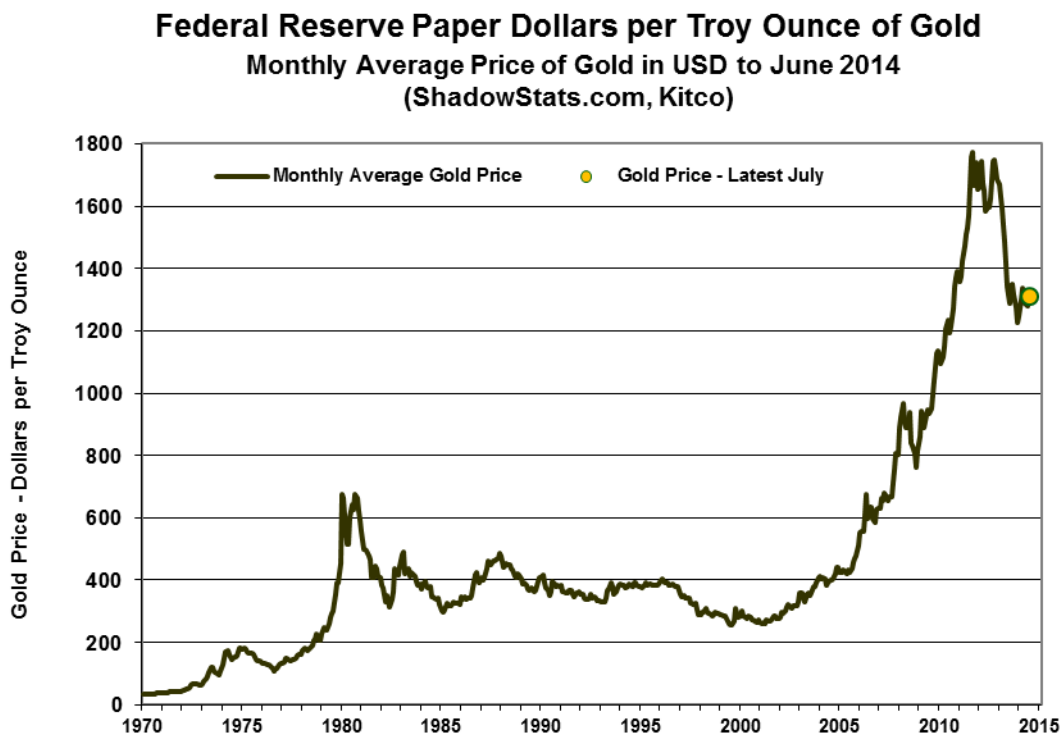
**Gold and Silver Highs Adjusted for CPI-U/ShadowStats Inflation.** Despite the September 5, 2011 historic-high gold price of \$1,895.00 per troy ounce (London afternoon fix), and despite the multi-decade-high silver price of \$48.70 per troy ounce (London fix of April 28, 2011), gold and silver prices 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 \$2,604 per troy ounce, based on June 2014 CPI-U-adjusted dollars, and \$11,214 per troy ounce, based on June 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 June 2014 CPI-U inflation, the 1980



silver-price peak would be \$151 per troy ounce and would be \$652 per troy ounce in terms of June 2014 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

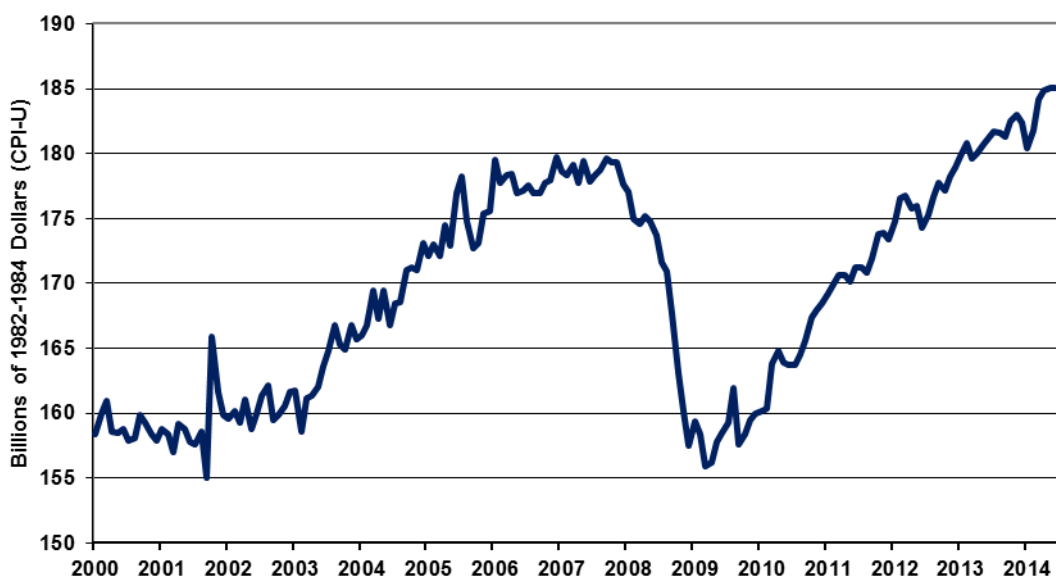
As shown in Table 1, on page 31 of [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), over the decades, the increases in gold and silver prices have compensated for more than the loss of the purchasing power of the U.S. dollar as reflected by CPI inflation, while they effectively 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).



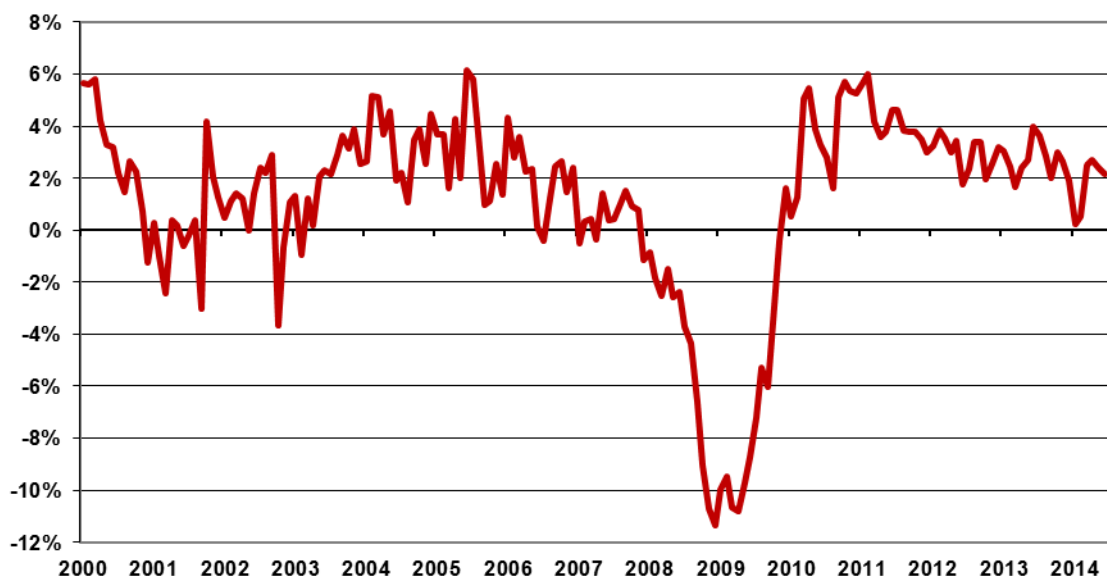
***Real (Inflation-Adjusted) Retail Sales—June 2014—Inflation Wiped Out Headline Nominal Gain in June Sales.*** In nominal terms, before adjustment for inflation, headline monthly retail sales rose by 0.25% in June, versus a revised 0.48% (previously 0.34%) gain in May ([Commentary No. 640](#)). Based on today's reporting of a 0.26% headline monthly gain in the June 2014 CPI-U, and in the context of prior May CPI-U reporting, seasonally-adjusted real (inflation-adjusted) monthly retail sales notched lower by 0.01% in June (-0.01%), following a revised 0.13% monthly gain in May, which previously was a monthly decline of 0.01% (-0.01%). For second-quarter 2014, the annualized pace of quarterly growth in real retail sales was 6.42%, versus an annualized contraction of 0.97% (-0.97%) in first-quarter 2014.

Year-to-year change in June 2014 real retail sales was a 2.14% gain, versus a revised 2.42% (previously 2.07%) annual gain in May, 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. That signal had been given recently and was approached anew in initial reporting for June 2014. In the current circumstance, the signal likely will serve as an indicator of renewed downturn in broad economic activity.

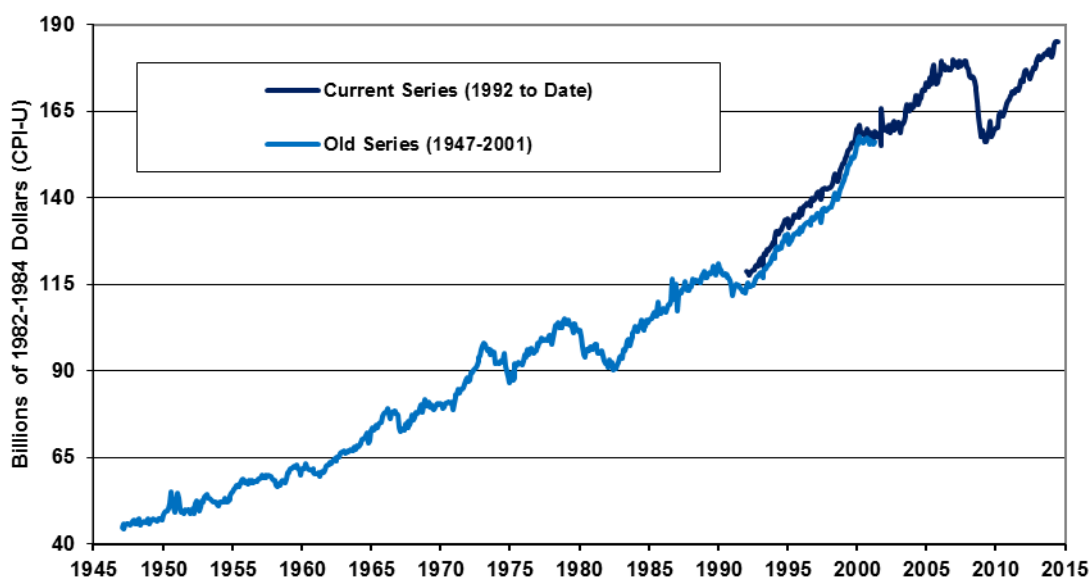
**Real Retail Sales (Deflated by CPI-U), Revised**  
To June 2014, Seasonally-Adj. (ShadowStats, Census, BLS)



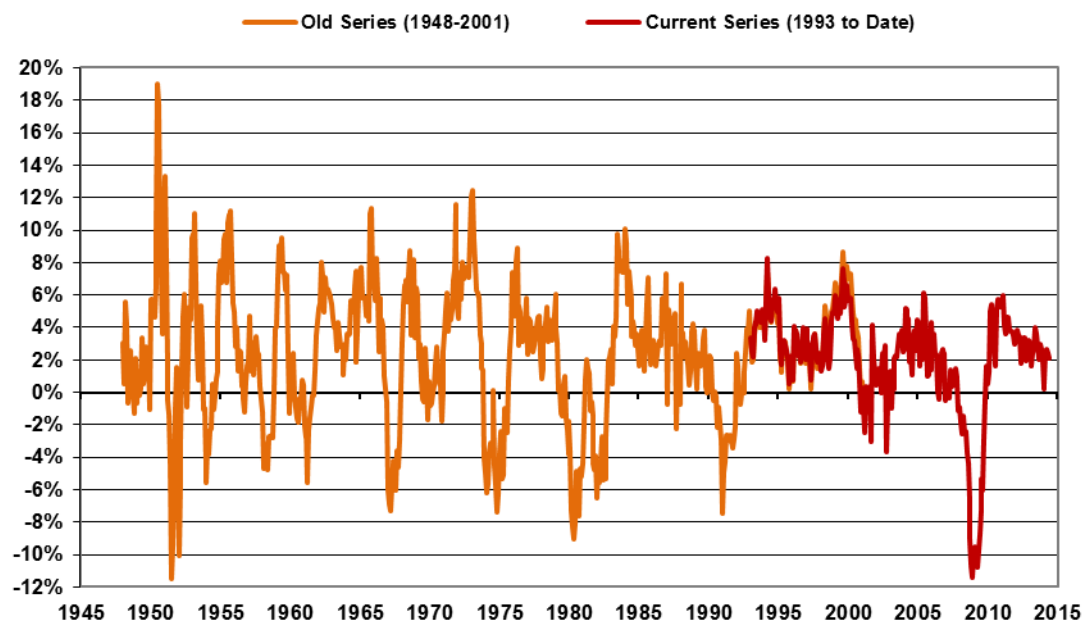
**Real Retail Sales Year-to-Year % Change**  
To June 2014, Seasonally-Adj. (ShadowStats, Census, BLS)



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



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



***Real Retail Sales Graphs.*** The first of the preceding four accompanying graphs 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 bounce-back in February and March, and into upwardly revised numbers in April and May, with a flattening in June. Year-to-year activity, which had plunged to a near-standstill in January and February, also bounced back some in March and into the second-quarter, pulling back sharply in June. 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 above pre-recession levels (see [Commentary No. 641.](#))

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 *Chapter 9* of [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), 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.

Also, as discussed in the *Opening Comments*, there has been no change in the underlying consumer-liquidity fundamentals. With low levels of stagnant, real household income and lack of the ability and/or willingness of the consumer to offset limited income with debt expansion, 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.

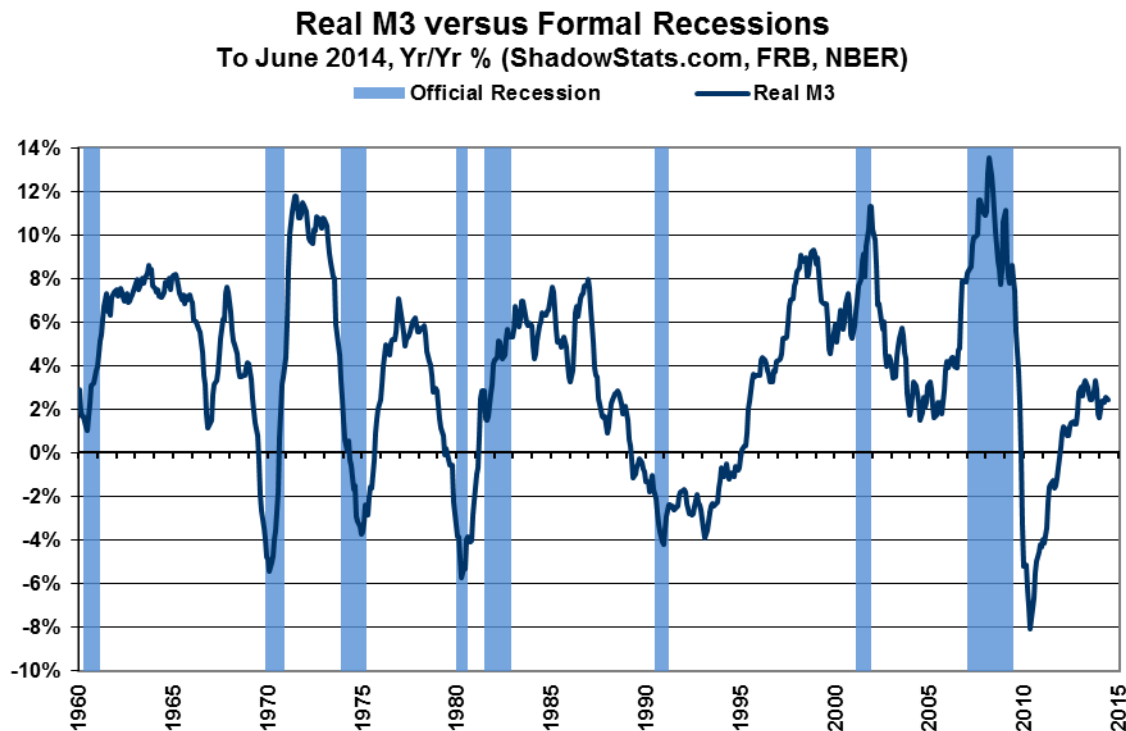
As official consumer inflation continues its upturn in the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by continued real earnings difficulties, discussed in the next section—these data should continue to trend meaningfully lower, in what rapidly should gain recognition as a formal new or double-dip recession (again, see *Opening Comments*).

***Real (Inflation-Adjusted) Average Weekly Earnings—June 2014—Down for Third Month.*** Coincident with today's June 2014 CPI-W release, the BLS also published real average weekly earnings for June. 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 for the third straight month,

down by 0.11% (-0.11%) in June, versus a revised decline of 0.14% (-0.14%), previously down by 0.19% (-0.19%) in May, and a revised 0.19% decline (-0.19%) in April, previously a drop of 0.14% (-0.14%).

Year-to-year and seasonally-adjusted, June 2014 real average weekly earnings rose by 0.24%, versus an unrevised 0.28% gain in May, and a revised 0.32% (previously 0.37%, initially 0.32%) gain in April. 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—June 2014.** The signal for a double-dip or ongoing recession, based on annual contraction in the real (inflation-adjusted) broad money supply (M3), remains in place and continues, despite real annual M3 growth holding in positive territory. As shown in the accompanying graph—

based on June 2014 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for June 2014 moved lower, to 2.4% from a revised 2.6% (previously 2.4%) in May. The slight slowing in the June annual growth rate reflected a weaker gain in annual headline M3 growth, with headline annual CPI-U inflation holding at 2.1%.

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.

A renewed downturn in official data appears to be underway, and that eventually should 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. Further discussion of this issue is found in *Chapter 8* of the [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#).

## EXISTING-HOME SALES (June 2014)

### **Despite Third Month-to-Month Gain, Existing Home Sales Fell Year-to-Year for the Eighth Month.**

The headline 2.6% month-to-month gain in June existing home sales was in the context of a small upside revision to May’s estimated level of activity. Net of the prior-period revision, June sales were up by 3.1% for the month, reflecting the third straight increase in seasonally-adjusted monthly sales. Nonetheless, the June reading was down by 2.3% year-to-year—the eighth straight annual decline—and down by 6.3% from the near-term peak of activity in July 2013. June 2014 sales activity, at the headline annual sales pace of 5,040,000, also was down by 30.7% from the June 2005 pre-recession peak in activity.

### ***Headline June Existing-Home Sales Rose by 2.6% for the Month, Down 2.3% (-2.3%) Year-to-Year.***

This morning’s (July 22nd) release of June 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted 2.6% month-to-month gain, following a revised 5.4% (previously 4.9%) gain in May. Net of prior-period revisions, June sales gained 3.1% for the month

On a year-to-year basis, June 2014 annual sales contracted by 2.3% (-2.3%), versus a revised 4.7% decline (-4.7%), previously a 5.0% contraction (-5.0%), in May. June’s annual contraction was the eighth consecutive month where headline sales were reported below those of the year before.

Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into renewed downturn, as seen in the graph in the *Opening Comments*. The data quality remains questionable.



The NAR estimated that the portion of total sales in “distressed” properties in June 2014 held at the May levels of 11% (8% foreclosures, 3% short sales). Reflecting continuing lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money into the existing-housing market, the NAR also estimated that all-cash sales in June 2014 were 32%, the same as in May 2014, but up from 31% in June 2013.

As discussed in the *Opening Comments*, there has been no underlying improvement in fundamental consumer liquidity conditions, and most underlying economic numbers are showing a renewed economic downturn. There is no basis here for an imminent recovery in the housing market.

**Existing-Home Sales Graph.** The regular monthly graph of existing-home sales activity is included in the *Opening Comments* section, along with a graph of the latest housing starts data for single-unit construction, for comparison. Where average existing-home sales activity rose in second-quarter 2014, up by a simple (not annualized) quarterly increase of 5.8% versus first-quarter 2014, it did not recover the level of fourth-quarter activity. Where first-quarter 2014 activity was down by 6.9% versus fourth-quarter 2013, second-quarter 2014 activity still was 1.5% below fourth-quarter 2013 and was down by 4.5% from second-quarter 2013, the year before.

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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, amidst fluctuations, market expectations generally still are overly optimistic as to the economic outlook. Expectations should continue to be hammered, though, by ongoing downside corrective revisions and an accelerating pace of downturn in headline economic activity. The initial stages of that process have been seen in the recent headline reporting of many major economic series (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#)), including the sharp pace of economic decline seen in real first-quarter 2014 GDP, which is the first contemporary reporting of a quarterly GDP contraction since the formal end of the 2007 recession, in mid-2009.

Weakening, underlying economic fundamentals indicate still further deterioration in business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend until such time as the unfolding “new” recession receives general recognition, which likely would follow the reporting of a headline contraction in second-quarter 2014 GDP real growth.

Stronger inflation reporting also remains likely, as has been seen in recent reporting. Upside pressure on oil-related prices should reflect intensifying impact from global political instabilities and a weakening

U.S. dollar in the currency markets. Food inflation has been picking up as well. The dollar faces pummeling from the weakening economy, continuing QE3, the ongoing U.S. fiscal-crisis debacle, and deteriorating U.S. and global political conditions (see [\*Hyperinflation 2014—The End Game Begins \(Updated\)\*](#) – *First Installment*). 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, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data). These issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

### ***PENDING RELEASES:***

**New-Home Sales (June 2014).** The Census Bureau will provide the government's estimate of new-home sales for June, on Thursday, July 24th. See the earlier contents of this *Commentary No. 643* for details of the National Association of Realtors survey of June existing-home sales.

Despite recent upticks in both these series, a pattern of stagnation or intensifying downturn still appears to be in play for both the existing- and new-home sales. Market consensus even appears to favor an outright contraction in June new-home sales. Monthly changes in home-sales activity usually are not statistically-significant, and still-unstable reporting and revisions (both are likely to the downside) remain a fair bet for the new-home sales series.

**New Orders for Durable Goods (June 2014).** The reporting of June 2014 new orders for durable goods is scheduled for Friday, July 25th, by the Census Bureau. Recently, new orders generally have been stagnant, plus or minus, particularly net of inflation. Sharp and irregular volatility in commercial aircraft orders should dominate the numbers anew in the next several months. Commercial aircraft orders usually are booked years in advance with relatively minimal impact on near-term production activity. Net of the unstable aircraft reporting, some intensification in downside activity is likely, coincident with slowing activity seen recently in the broad economy. Market expectations appear to be for flat-to-plus activity in orders, with headline reporting generally a fair bet to disappoint expectations on the downside.