

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

COMMENTARY NUMBER 656
2013 Consumer Expenditures, August Retail Sales, Gold
September 12, 2014

**U.S. Economy Re-Entered Recession in 2013,
Indicated by the BLS's Annual Consumer Expenditure Survey**
2013 Total Money Income Fell Even Before Inflation Adjustment
Physical Gold, a Life Preserver That Could See Action Soon
**Day-to-Day Timing of a Great Financial Disaster Is a Tough Call,
But the Alarm Bells Are Sounding**
Strong Headline Retail Sales Gain Was Not Statistically Significant

PLEASE NOTE: The next regular Commentary is scheduled for Monday, September 15th, covering August industrial production. That will be followed by Commentaries on Tuesday covering the August PPI and the Census Bureau's 2013 income and poverty survey, on Wednesday covering the August CPI, real retail sales and earnings, and on Thursday covering August housing starts and the Bureau of Labor Statistics' initial estimate of the 2014 benchmark revision to the payroll-employment survey.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Longest Stretch of Jobs Creation? Hype and fantasy increasingly dominate the economic and financial news media, as political propaganda nears its pre-election crescendo. The happy news that President Obama has presided over the “longest period of uninterrupted job creation in our history”—if accurate,

would be something akin to what could have been claimed in 1907, by San Francisco Mayor Eugene Schmitz, as to his having presided over the greatest construction boom in the history of his City. Where San Francisco's building activity was in response to the Great San Francisco Earthquake and Conflagration of 1906, the purported recent boom in employment was in the wake of a manmade disaster, the Great Economic Collapse and Financial Panic of 2008. The 2008 crisis was something of a day-of-reckoning for decades of political malfeasance in managing the finances and trade policies of the country, and in overseeing the functioning of the financial-services industry.

When considering the nature of the headline jobs recovery, keep in mind that to the extent that those numbers have any meaning (see [Commentary No. 655](#)), recent jobs growth has been enhanced heavily by the creation of part-time versus full-time jobs. The number of employed—those who hold at least one job—still has not recovered its pre-recession peak, seen nearly seven years ago, and the number of employed individuals fell by a headline 73,000 as recently as April 2014.

Given the confluence of extraordinarily-negative fundamentals that fed into the 2008 financial panic, desperate and extraordinary measures were taken by officials to push the threat of financial-system collapse into the future. While some time was bought for the survival of the financial system, the economy did collapse and has yet to recover.

System-threatening instabilities largely were papered over, with issues such as the long-term solvency of the United States, U.S. banking-system solvency, fundamental structural problems impairing consumer liquidity, and long-term joblessness for massive numbers of individuals largely having been pushed away from the public view. The shocks from 2008 panic still are unfolding, and unresolved issues that continue to threaten the markets and the system are reviewed and discussed in these *Opening Comments*.

Consumer Expenditures Fell in 2013, Contrary to Positive GDP Growth. Sometimes a little bit of economic reality will shine through with official reporting that is not so widely followed by, or massaged for, the popular media. Such numbers rarely get as careful a political screening as do the more-regular headline data. For example, also in this section, a review of the just-published 2013 annual Bureau of Labor Statistics (BLS) survey of Consumer Expenditures shows ongoing recession. The detail shows that the U.S. economy did not see a bottom in the recession until 2010 (not the official exit of 2009); the economy never regained its pre-recession high; and the economy turned down anew in 2013.

Next week's pending reports on 2013 income and poverty estimates from the Census Bureau, and on the initial estimate of the magnitude of 2014-benchmark revision to payroll employment from the BLS may offer similar signals.

August Retail Sales Reporting Was Strong, But Not Significant. Beyond the unresolved issues of 2008, and some catch-up reporting in otherwise heavily bloated growth in headline economic data, today's (September 12th) 0.58% headline jump in August retail sales was dominated by auto sales. Falling into the bloated growth category, headline sales growth was near consensus, in the context of upside revisions to June and July activity, and it likely will not be reduced much in real terms, net of headline August CPI-U inflation. Relatively strong auto sales are common at this time of year, but such activity usually is smoothed out by proper seasonal adjustments.

But Grandmother, What Big Teeth You Have! Those generally touting the happy ongoing prospects for the U.S. stock market, an economic boom and a shrinking budget deficit, also tend to savage the outlook for precious metals. Such commentators may have short-lived memories, are trying to sell equities or a political bill of goods, or they are about as prescient as Little Red Riding Hood was in admiring her ersatz grandmother's big teeth. One of the greatest financial crises of all time is near, if not at hand, and it likely will play out in heavy selling of the U.S. dollar and U.S. equities. When those living in a U.S. dollar-denominated world feel like they have been pounced upon by the Big Bad Wolf, they might wish that they had been holding physical gold as a hedge against all the U.S. dollar woes and financial turbulence that will be unfolding.

Those terrible teeth were bared, once before, not so long ago, when the U.S. financial system was on the brink of collapse in the late summer of 2008, a collapse made inevitable by all the political and financial-system malfeasance of recent decades. A day-of-reckoning was at hand. The U.S. Treasury and the Federal Reserve bought some time in postponing a systemic collapse, but the delayed day-of-reckoning is near, once again, and the ability of officials to buy more time is extremely limited.

Where efforts to postpone financial-system failure met with short-lived success, economic activity still crashed into 2009, then entered a phase of stagnation or bottom-bouncing at a low level of activity. A broad recovery never took place, and activity has started to turn down anew (see [2014 Hyperinflation Report—Great Economic Tumble](#)).

They Never Addressed the Basic Issues. In 2008, the politicians controlling the U.S. government and overseeing the financial system, including the Treasury and the Fed, pursued a course of extreme money creation; the spending, lending and guaranteeing of whatever funds were needed; and the covering of whatever systemic-threatening obligations had to be met. They also bailed-out or seized whatever financial-system or system-dependent companies or agencies they desired, where action was deemed necessary in order to forestall or avoid systemic collapse, or substantial political embarrassment.

Systemic salvation was no more than the buying of a little bit of time. Any time gained, however, was wasted. They did not address seriously any of the major systemic shortfalls that had led to the day-of-reckoning. Systemic abuses continue. As a result, the banking remains severely impaired and still largely is unable to function normally. Due to structurally-impaired consumer liquidity, the economy has not been able to recover and is turning down anew.

Government managed by those operating under the premise that neither a contained federal deficit nor weakness in the U.S. dollar matters politically, continues. "Containment" of the federal budget deficit has devolved to decade-long bookkeeping and accounting games, while reporting based on generally accepted accounting principles (GAAP) still shows annual deficits in the \$6 trillion range. Current issues include:

- "Borrowing" economic growth and activity from the future, through extraordinary and unsustainable debt expansion, without consideration of ever re-establishing sustainable economic growth, had become the pre-crisis norm. It helped to fuel pre-2008 Panic economic growth in an environment where real consumer-income growth had faltered; it will be used again.
- Funding rapidly expanding political largesse in social programs has exploded, with no meaningful efforts being made to fund those programs fully. Combined with a demonstrated lack of willingness of those controlling the government to address the long-term solvency problems of the

United States, these issues increasingly have the global financial community looking askance at the soundness of the U.S. dollar.

- With its quantitative easings, the Fed has set a precedent for funding the U.S. Treasury, at will.
- Detrimental trade policies have been pursued for special interests and otherwise, to the extent that the U.S. labor force and industry have lost their productive power. The United States has developed the largest trade deficit in global history, with the effect of redistributing significant domestic wealth to offshore interests in a decades-long general debasement of the U.S. dollar.
- Computerized risk modeling and stock-trading models have been taken beyond the scope of real-world common sense, into the realm of academic fantasies, with related systemic-risks exacerbated by lax regulatory oversight.

U.S. Dollar Selling Panic Remains the Offing. Given the basic nature of the beast, precise timing of a financial panic generally is extremely difficult to call, and when it can be called, there usually is a very limited lead-time. I expected that the U.S. dollar would face panic-selling in the first half of 2014. That did not happen. Yet, the underlying fundamentals, which determine the global valuation of the U.S. dollar, continue to deteriorate and are about as negative as they get (see the *Hyperinflation Summary*). While, some of the basics still are not yet fully recognized in the markets—such as a faltering domestic economy—there is nothing unfolding that would alter those underlying fundamentals.

Short-lived hype, occasional jawboning and intervention can keep the U.S. currency afloat for a while, but heavy dollar selling will follow, as underlying fundamentals win out over hype and unsustainable actions (such as intervention). The fundamentals always have been the ultimate drivers of the U.S. dollar's value.

Massive dollar selling is possible at any time. When it happens, it likely will be without much warning. It could be triggered simply by a “surprise” negative economic statistic or political development, and it likely would be accompanied by heavy selling of U.S. stocks and bonds.

As the globally-driven flight from the U.S. dollar intensifies, such should trigger a resetting of the props used to delay the 2008 day-of-reckoning, discussed earlier. The ultimate day-of-reckoning still looms.

The dollar sell-off also should set the early stages of the hyperinflation discussed in [2014 Hyperinflation Report—The End Game Begins](#). As discussed in that report, physical gold and silver remain the primary hedges against the loss of purchasing power in dollar-denominated assets during the crises ahead.

Consumer Expenditures Survey Suggests the Economy Re-Entered Recession in 2013. The Bureau of Labor Statistics (BLS) released its 2013 survey of Consumer Expenditures on September 9th. A careful review of the data suggests:

- That the 2007 recession hit a bottom in 2010 (not the official trough of 2009);
- That the economy has not regained its 2007, precession high;
- That the economy turned down anew in 2013.

The BLS reported that average annual expenditures per “consumer unit” in 2013 declined by 0.7% from 2012, down by 2.2% net of headline CPI-U inflation. A consumer unit is defined by the BLS as “families, single persons living alone or sharing a household unit with others but who are financially independent, or two more persons living together who share expenses.”

That said, the survey data also encompass annual aggregates of expenditures and money income estimated for all consumers. Expenditures range from covering outlays for food, clothing, housing, education, transportation and entertainment, to healthcare, insurance, pensions and cash contributions. The universe here covers most of what is covered in the personal consumption expenditure (PCE) category of the GDP, shy of “final consumption expenditures of nonprofit institutions serving households” (primarily hospitals), some imputations and other creative measures used by the Bureau of Economic Analysis (BEA). In total, the nominal (not adjusted for inflation) aggregate consumer expenditures per the BLS amounted to 56% of the total PCE reported by the BEA in 2013.

The BLS’s independent estimate of PCE actually should be highly correlated with the BEA’s estimate, but again, the BEA’s guesstimates have a large variety of gimmicks built into them, and the differences between the series are such that the BLS expenditure measure is more consistent with better-quality numbers such as the median household income series.

Unlike the average consumer-unit detail, which is akin to per capita numbers, the following three graphs reflect the reported aggregate money income and consumer expenditures for the entire system. Generally, the aggregate numbers will pick-up and reflect some growth from the regular increase in the population over time, etc.

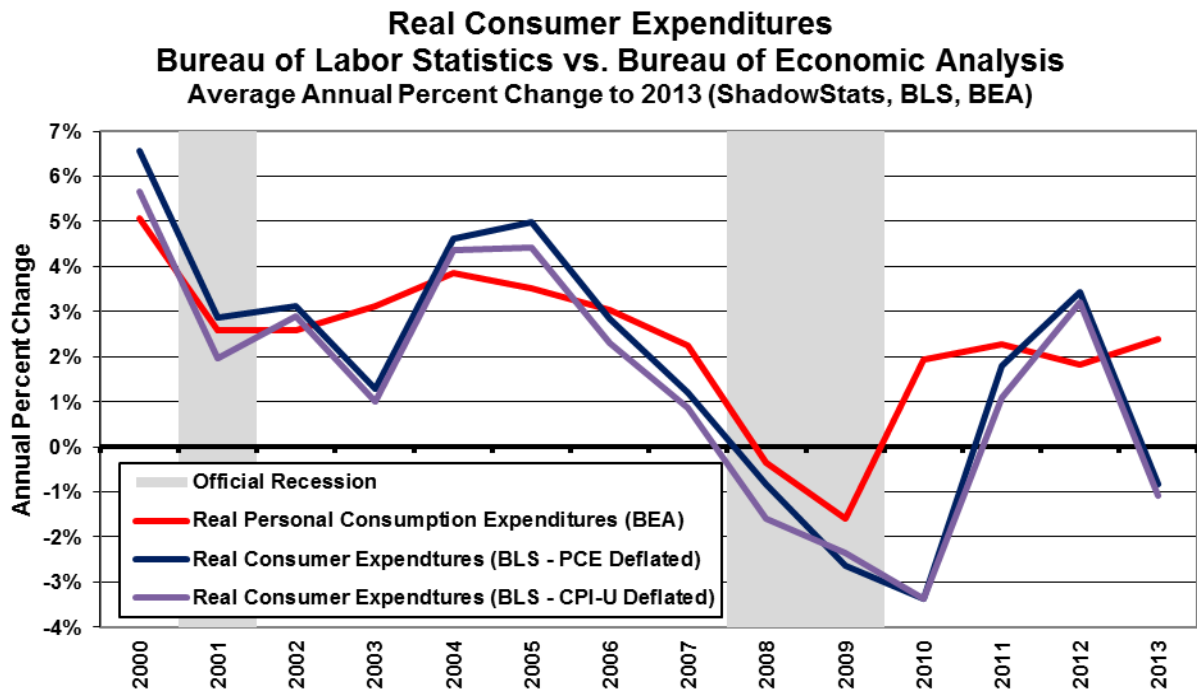
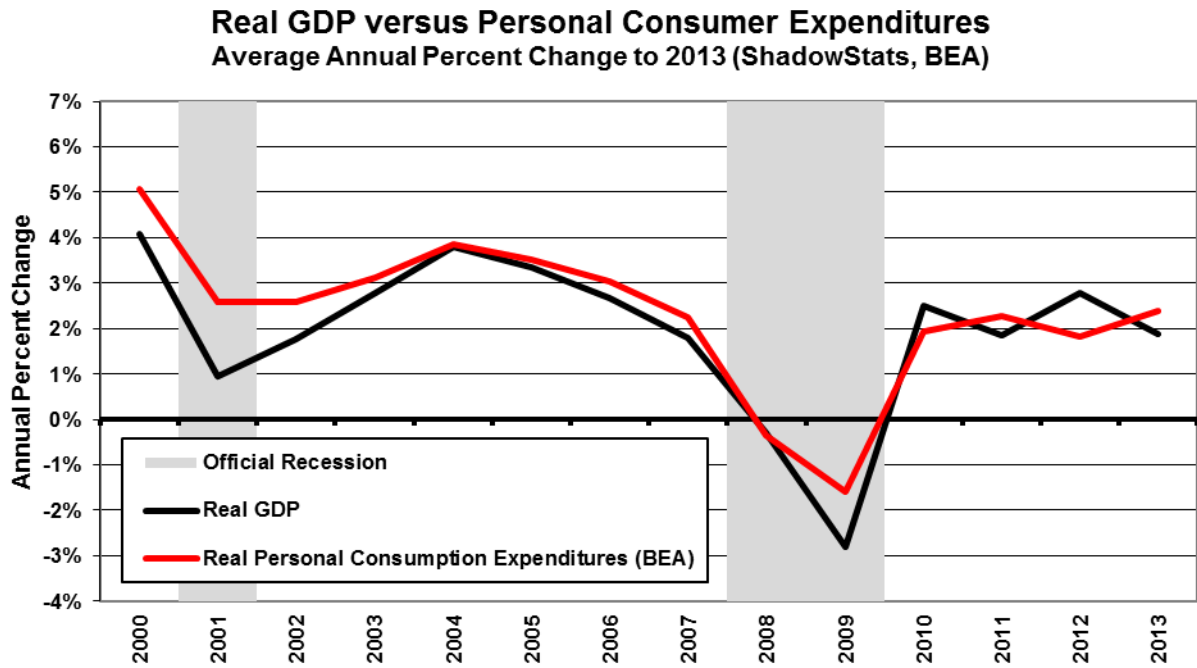
The first graph shows the comparative year-to-year percent change in the BEA’s inflation-adjusted, or real, GDP series, versus the PCE series. Where the personal consumption expenditure account currently represents individual consumer activity and 68% of the GDP, there is a strong relationship and correlation between the annual growth in the PCE versus the GDP. Both series show their bottom year-to-year contraction in 2009, with positive annual growth thereafter.

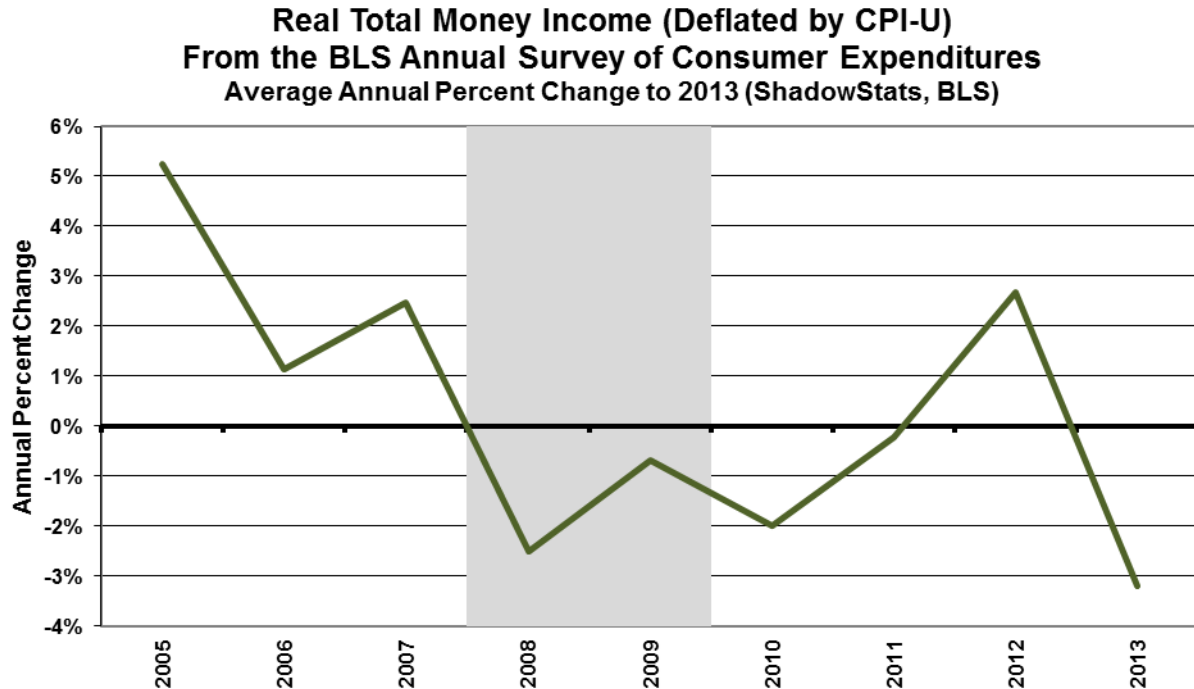
The second graph shows the comparative year-to-year percent change in the BEA’s inflation-adjusted PCE measure (red line), versus the BLS’s consumer expenditures measure (CE), which is deflated first (dark blue line) by the PCE deflator (or inflation measure) used in deflating the PCE series, and second by the BLS’s CPI-U (light blue line).

Here, the CE lines hit bottom growth in 2010, not 2009, and after some rebound, both the CE lines turn negative, anew in 2013.

Separately, not shown in these graphs, the average annual levels of real GDP and PCE both regained and exceeded their 2007 pre-recession peak levels as of 2010, with the PCE up by 6.5% in 2013, versus 2007. As of 2013, the BLS CE series had not regained its 2007 pre-recession peak level, but rather was down by 4.2% from 2007 (deflated by the CPI-U).

The third graph shows real annual change in total money income from 2005 to 2013, as surveyed by the BLS. It is the aggregate estimate for the country, deflated by CPI-U headline inflation. The annual downturn in 2013 income likely was a primary causal factor in the annual decline in real 2013 consumer expenditures.





Annual change is shown in the above graph for total money income, as surveyed by the BLS for 2005 to 2013, with the timeframe and detail constrained as to what is plotted by inconsistencies from series redefinitions or changes in estimation methodology. That said, the total series as shown here, is consistent and comparable over time. It includes wages and salaries; self-employment income; Social Security, private and government retirement income; interest, dividends rental income and other property income; public assistance, including supplemental security income and food stamps; unemployment, workers' compensation, veterans' benefits and regular contributions for support; and a relatively small "other" category that amounted to 0.4% of the 2013 total.

Retail Sales—August 2014—Headline Reporting Was Strong, But Not Significant. Published in advance of the headline August CPI-U inflation—August 2014 nominal retail sales growth came in close to consensus at a statistically-insignificant headline gain of 0.58%. In the context of upside revisions to June and July activity, the monthly gain was dominated by a jump in automobile sales. Strong sales are common near the shift of the model year, but the resulting monthly changes usually are smoothed out by proper seasonal adjustment.

Nominal (Not-Adjusted-for-Inflation) Retail Sales—August 2014. Not adjusted for consumer inflation, headline August 2014 retail sales showed a statistically-insignificant (albeit marginally so) and seasonally-adjusted monthly gain in activity of 0.58%. That gain was 1.04% before prior-period revisions. The headline 0.58% August gain followed a revised, statistically-significant 0.34% monthly gain in July. See ShadowStats affiliate www.ExpliStats.com for plots of the revisions and other headline detail.

Year-to-year growth in August 2014 retail sales rose to a statistically-significant 5.00%, versus a revised 4.21% increase in July. The July annual change reflected a downside revision to the prior-year's level of activity as well as the upside revision to July 2014.

Real (Inflation-Adjusted) Retail Sales—August 2014. Again, the headline 0.58% August 2014 retail sales gain was before accounting for inflation. Real retail sales growth for August (net of inflation), will be reported along with the August 2014 CPI-U in the September 17th *Commentary No. 659*. August headline inflation should be around 0.1%, enough to dampen the headline real growth rate slightly, but not enough to turn it negative for the month (see the *Week Ahead* section).

Liquidity Constraints Impair Consumer Economic Activity. As was discussed in the *Opening Comments* of [Commentary No. 654](#), and as will be fully updated in the CPI-U *Commentary No. 659* of September 17th, during the last six-plus years of economic collapse and stagnation, activity in consumer buying of goods and services has been constrained by the intense, structural-liquidity woes besetting the consumer. Without real, or inflation-adjusted, growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply does not have the ability to sustain real growth in retail sales or in the personal-consumption activity that dominates the headline change in GDP.

[For further details on the August retail sales, see the Reporting Detail section. Also, various drill-down detail and graphics options on retail sales headline reporting and revisions are available to ShadowStats subscribers at our affiliate: www.ExpliStats.com]

HYPERINFLATION WATCH

Hyperinflation Outlook Summary. This *Summary* has not been revised from *Commentary No. 655* of September 5th. The next revision is planned to follow the heavy calendar of economic releases from September 12th through the 18th. 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*, including a review in [Commentary No. 639](#).

Primary Summary. The primary and basic summary of the broad outlook and the story of how and why this crisis has unfolded and developed over the years—particularly in the last decade—is found in the *Opening Comments* and *Overview and Executive Summary* of that *First Installment Revised* (linked above). The following section summarizes the underlying current circumstance.

Consistent with the above *Special Commentaries*, the unfolding economic circumstance, in confluence with other fundamental issues, should place mounting and massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic. Physical gold and silver, and holding assets outside the U.S. dollar, remain the primary hedges against the pending total loss of U.S. dollar purchasing power.

Current Economic Issues versus Underlying U.S. Dollar Fundamentals. U.S. economic activity has turned down anew, with headline first-quarter 2014 GDP having contracted at an annualized real pace of 2.11% (-2.11%), following 3.50% fourth-quarter 2013 growth, per the July 30th GDP benchmark revisions. Although the second estimate of second-quarter 2014 GDP growth came in at 4.17%, such still heavily overstated actual current economic activity and remained subject to some downside revisions. The “advance” estimate of third-quarter GDP on October 30th will be that last reporting before the midterm election. While third-quarter GDP should show a quarterly contraction within its standard revision cycle, one should not underestimate the ability of the Bureau of Economic Analysis to keep that final pre-election number in positive territory, in initial reporting.

Nonetheless, basic underlying economic series, such as the trade deficit, retail sales and industrial production, even payroll employment, should be showing enough of a downturn or weakness in headline activity during the same timeframe—the next several months—so as to provide consensus expectations with downside shocks. That increasingly should shift the popular outlook towards a “new recession,” with negative shifts in the economic consensus likely to disrupt stability in the financial markets.

As financial-market expectations increasingly shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, should place mounting and massive selling pressures on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic.

Unexpected economic weakness intensifies the known stresses on an already-impaired banking system, hence a perceived need for expanded, not reduced, quantitative easing. The highly touted “tapering” by the FOMC is pre-conditioned by a continued flow of “happy” economic news. Banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs likely still will be provided, as needed, by the Fed, under the ongoing political covering of a weakening economy—a renewed, deepening contraction in business activity.

Unexpected economic weakness also savages projections of headline, cash-based, federal-budget deficits (particularly the 10-year versions) as well as projected funding needs for the U.S. Treasury. Current fiscal “good news” is from cash-based, not GAAP-based accounting projections, and comparative year-ago cash numbers are distorted against U.S. Treasury and government activity operating *sub rosa*, in order to avoid the limits of a constraining debt ceiling.

All these crises will combine against the U.S. dollar, likely in the very-near future.

In general, summary, the fundamental issues threatening the U.S. dollar could not be worse. They include, but are not limited to:

- A severely damaged U.S. economy, which never recovered post-2008 and is turning down anew. The circumstance includes a sharply widening trade deficit, as reflected in headline first- and second-quarter reporting, as well as ongoing severe, structural-liquidity constraints on the

consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy.

- U.S. government unwillingness to address its long-term solvency issues. Those controlling the U.S. government have demonstrated not only a lack of will to address long-term U.S. solvency issues, but also the current political impossibility of doing so. Any current fiscal “good news” comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run in the \$6-trillion-plus range for annual shortfall, while those in Washington continue to increase spending and to take on new, unfunded liabilities.
- Monetary malfeasance by the Federal Reserve, as seen in central bank efforts to provide liquidity to a troubled banking system, and also to the U.S. Treasury. The current pace of the Fed’s monetization is at 58.2% of effective net issuance of the federal debt to be held by the public in calendar-year 2014 (through September 3rd). The pace of effective monetization has been 65.9% since the January 2013 expansion of QE3.
- Mounting domestic and global crises of confidence in a dysfunctional U.S. government, where the relative positive rating by the public of the U.S. President tends to have a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. Positive ratings for both the President and Congress are pushing, if not at, historic lows.
- Mounting global political pressures contrary to U.S. interests. Downside pressures on the U.S. currency generally are increasing, in the context of global political and military developments that have been contrary to U.S. strategic, financial and economic interests.
- Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.

Renewed and intensifying weakness in the U.S. dollar will place upside pressure on oil prices and other commodities, boosting domestic inflation and inflation fears. Domestic willingness to hold U.S. dollars will tend to move in parallel with global willingness, or lack of willingness, to do the same. Both dollar weakness and the resulting higher inflation should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises.

REPORTING DETAIL

RETAIL SALES (August 2014)

Headline Reporting and Revisions Were Positive, But Not Significant. Published in advance of the government’s headline estimate of August consumer inflation CPI-U—August 2014 nominal retail sales growth came in at a statistically-insignificant headline gain of 0.58%. That was close to market consensus, and was in the context of upside revisions to June and July activity. The monthly gain was dominated by a jump in automobile sales. Strong sales are common near the shift of the model year, but the resulting monthly changes usually are smoothed out by proper seasonal adjustments.

The formal estimate of real, or inflation-adjusted, August retail sales will be published on September 17th and reviewed in *Commentary No. 659* of that date. The pending headline inflation gain is not likely to offset a meaningful portion of today’s headline nominal monthly sales gain.

Nominal (Not-Adjusted-for-Inflation) Retail Sales—August 2014. The latest headline retail-sales detail was in the context of upside revisions to sales activity in June and July 2014. Not adjusted for consumer inflation, today’s (September 12th) report on August 2014 retail sales—issued by the Census Bureau—indicated a statistically-insignificant (albeit marginally so), seasonally-adjusted, headline monthly change in activity of 0.58% +/- 0.58% (all confidence intervals are at the 95% level), and a monthly gain of 1.04% before prior-period revisions. The August 0.58% gain followed a revised, statistically-significant month-to-month gain of 0.34% (previously up by 0.04%) +/- 0.23% for July 2014. The upside revision to headline July growth was on top of an upside revision to the headline June level.

Year-to-year growth in August 2014 retail sales rose to a statistically-significant 5.00% +/- 0.82%, versus a revised 4.21% (previously 3.68%) in July. The July annual change reflected a downside revision to the prior-year level of activity as well as the upside revision to July 2014.

August Core Retail Sales—Tumbling Gasoline Prices. In an environment of rising food prices, and with an unadjusted 3.34% decline in monthly gasoline prices, seasonally-adjusted monthly grocery-store sales rose by 0.38% in August, with gasoline-station sales down by 0.80%. Under normal conditions, the bulk of non-seasonal variability in food and gasoline sales is in pricing, instead of demand. “Core” retail sales—consistent with the Federal Reserve’s preference for ignoring food and energy prices when “core” inflation is lower than full inflation—are estimated using two approaches:

Version I: August 2014 versus July 2014 seasonally-adjusted retail sales series—net of total grocery store and gasoline station revenues—was a gain of 0.79%, versus the official 0.58% gain.

Version II: August 2014 versus July 2014 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—was a gain of 0.62%, versus the official 0.58% gain.

Real (Inflation-Adjusted) Retail Sales—August 2014. Again, the headline 0.58% August 2014 retail sales gain was before accounting for inflation. Real retail sales growth for August (net of inflation), will be reported along with the headline estimate of consumer inflation, the August 2014 CPI-U, in the September 17th *Commentary No. 659*. August headline inflation should be around 0.1%, enough to dampen the headline real growth rate slightly, but not enough to turn it negative for the month (see the *Week Ahead* section).

Liquidity Constraints Impair Consumer Economic Activity. As was discussed in the *Consumer Liquidity* section in the *Opening Comments* of [Commentary No. 654](#), and as will be fully updated in the CPI-U *Commentary No. 659* of September 17th, during the last six-plus years of economic collapse and stagnation, activity in consumer buying of goods and services has been constrained by the intense, structural-liquidity woes besetting the consumer. Without real, or inflation-adjusted, growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply does not have the ability to sustain real growth in retail sales or in the personal-consumption activity that dominates the headline change in GDP.

Reporting Instabilities and Distortions. The usual seasonal factor distortions were at play in August reporting, where the headline data reflected concurrent seasonal adjustments. Given Census Bureau reporting procedures, the headline detail is not comparable with earlier reporting. Accordingly, current data can reflect growth shifts from earlier periods, without the specifics being published or otherwise mentioned to the public.

As has been a common pattern, the year-ago numbers for July and August were revised lower, along with the publication of the August 2014 data and revised detail on June and July 2014. All other seasonally-adjusted historical numbers also were revised, but the details were not published. Only the new details for July and August 2013 were provided for the earlier data. Those revisions to one year ago do not reflect changes in actual sales activity, only in the continuing unstable monthly shifting of adjusted data, thanks to the concurrent-seasonal-adjustment process.

Concurrent seasonal adjustments are recalculated every month, but not reported on a consistent, historical basis. This allows for invisible shifts in seasonally-adjusted current activity that are not consistent with published historical reporting. Further, the stability of the seasonal-adjustment process (particularly the concurrent-seasonal-adjustment process used with retail sales) and sampling methods has been disrupted severely by the unprecedented depth and length of the current economic downturn in the post-World War II era (the period of modern economic reporting).

Retail sales reporting suffers the same inconsistency issues seen with other series, such as payroll employment, the unemployment rate, and durable goods orders. The highly variable and unstable seasonal factors here continued to cloud relative activity in the June 2014-to-August 2014, and in the July 2013-to-August 2013 periods, five months that are published on a non-comparable basis with all the other historical data. Consistent data are calculated and are available within the Census Bureau, but the Bureau chooses not to publish them.

WEEK AHEAD

Against Overly-Optimistic Expectations, Pending Economic Releases Should Be Much Weaker; Inflation Releases Should Be Increasingly Stronger. Although shifting to the downside, again, amidst wide fluctuations, market expectations for business activity generally remain overly optimistic, well above any potential, underlying economic reality. Market outlooks should be hammered, though, by ongoing, downside corrective revisions and by an accelerating pace of downturn in headline economic activity.

Longer-Range Reporting Trends. The initial stages of the process shifting economic-growth expectations to the downside already 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 largely survived the GDP benchmark revisions. The strong bounce-back estimated by the Bureau of Economic Analysis (BEA) for headline second-quarter GDP still should face some downside revision, with a likely GDP contraction eventually seen in third-quarter 2014.

Indeed, weakening, underlying economic fundamentals indicate still further deterioration in business activity. Accordingly, weaker-than-consensus economic reporting should remain the general trend until the unfolding “new” recession receives broad recognition, which likely would follow the next reporting of a headline contraction in real GDP growth.

A generally stronger inflation trend remains likely to continue, as seen in recent months. Beyond the spread of earlier oil-based inflation pressures into the broad economy, upside pressure on oil-related prices should continue and be rekindled from the intensifying impact of global political instabilities and a likely near-term weakening of the U.S. dollar in the currency markets. Again, food inflation also is picking up, partially due to supply issues. 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 U.S. inflation in a broad range of areas.

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:

Index of Industrial Production (August 2014). On Monday, September 15th, the August 2014 index of industrial production will be released by the Federal Reserve Board. August production has a fair chance of coming in close to modest market expectations for headline monthly growth of about 0.3%. Risks of a downside surprise, including an outright August contraction, likely would be in the context of downside revisions to prior reporting, with implied downside adjustments to inventory building. Again, this series is subject to large prior-period revisions.

Annual Poverty and Income Survey (2013). On Tuesday, September 16th, the Census Bureau plans the release of its 2013 annual survey on poverty and income. The same survey also will provide numbers on health insurance coverage, but not on a basis comparable with the pre-Obamacare environment. Only the income numbers will have any significance. The other detail is so heavily politicized as to be worthless, although some comments will be offered in the ShadowStats analysis of the release.

As discussed in [Commentary No. 654](#), the latest numbers on real median household income likely will be close to 2012 reporting, well below pre-recession levels and at or below levels seen in the late-1960s and early-1970s, based on CPI-U inflation. Income dispersion—a measure of income distribution—likely has continued at historic extremes.

Producer Price Index—PPI (August 2014). The August 2014 PPI also is scheduled for release on Tuesday, September 16th, by the Bureau of Labor Statistics (BLS). A small month-to-month increase is a reasonable expectation, despite a negative contribution from the energy sector. Inflation in food, “core” goods (everything but food and energy), and the spreading inflationary impact from hard-goods into the soft-services sector, all are likely, again.

Depending on the oil contract followed, not-seasonally-adjusted, monthly-average oil prices were down by 4.8%-to-6.8% for the month of August, along with a 3.3% (-3.3%) unadjusted monthly drop in average retail-gasoline prices. PPI seasonal adjustments for energy costs in August should be somewhat to the downside-side.

The wildcard in this revamped PPI remains the newly-added services sector, which largely is unpredictable, volatile and of limited meaning due to its inflation measurements having minimal relationship to real-world activity.

The new services series, in theory, is much-less dependent on the increasingly “antiquated” concepts of oil, food and “core” (ex-food and energy) inflation of the “hard” production-based economy. Yet, services costs increasingly have reflected spreading, general inflationary pressures—and shrinking profit margins—from rising prices in that hard economy. Accordingly, the aggregate headline August PPI inflation most likely still will show at least a minimal headline monthly increase, which generally would be in line with early consensus expectations.

Consumer Price Index—CPI (August 2014). The August 2014 CPI is scheduled for release on Wednesday, September 17th, by the Bureau of Labor Statistics (BLS). The headline CPI-U is a fair bet to show a minimal inflation gain, against early market expectations for an unchanged headline August inflation number.

Average gasoline prices fell month-to-month in August 2014 by 3.3% (-3.3%), on a not-seasonally-adjusted basis, per the Department of Energy, and BLS seasonal adjustments to gasoline prices should be slightly negative for the month. Based on August 2013 adjustment patterns, the unadjusted decline in month gasoline prices was enough to reduce the headline seasonally-adjusted inflation August 2014 rate by 0.2% (-0.2%) from whatever it would have been otherwise.

Higher food and “core” (net of food and energy) inflation, however, should more than offset the negative energy number, leading to a small headline gain in the CPI.

Year-to-year, CPI-U inflation would increase or decrease in August 2014 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.08% gain in the monthly inflation reported for August 2013. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for August 2014, the difference in August’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the July 2014 annual inflation rate of 1.99%. For example if the headline CPI-U rose by 0.1% for the month of August, the annual inflation rate would hold at about 2.0%.

Residential Construction—Housing Starts (August 2014). The Census Bureau plans the release of August 2014 residential construction detail, including housing starts, on Thursday, September 18th. Despite extreme monthly volatility seen regularly in the reporting of this series, and despite near-perpetual wishful upside market expectations for housing starts—although relatively flat activity appears to be expected in the current circumstance—month-to-month change likely will continue a pattern of statistical-insignificance, with ongoing stagnation and renewed downturn and/or downside revisions. As usual, this series is subject to extremely-large prior-period revisions.

In the wake of a 75% collapse in aggregate activity from 2006 through 2008, and of an ensuing five-year pattern of housing starts stagnation at historically low levels, little has changed. Again, as was discussed in the *Consumer Liquidity* section of [Commentary No. 654](#), there remains no chance of a near-term, sustainable turnaround in the housing market, unless there is a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

Payroll Employment Benchmark Revision (Preliminary Estimate for March 2014). Although full detail will not be released until the February 2015 publication of January 2015 payroll data, the Bureau of Labor Statistics (BLS) will publish its initial estimate of the aggregate benchmark revision to not-seasonally-adjusted March 2014 payrolls on Thursday, September 18th. Odds favor a downside revision, barring unrelated series redefinitions, as were introduced in last year’s benchmarking.