

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

COMMENTARY NUMBER 658
Annual Income Survey, August PPI

September 16, 2014

Still No Relief Pending for the Economy or the Financial System

**Changes in 2013 Real Median Household Income and
Income Dispersion Were Not Statistically Significant**

**Stagnant Real Median Income Held at Post-Recession Low,
Down 8.0% from Pre-Recession Peak, Lowest Since 1994,
Below Levels of Late-1960s and Early-1970s**

**Income Variance Held at Historic High,
Suggestive of Still-Greater Economic and Financial Crises Ahead**

August Annual PPI Inflation Notched Higher

PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Wednesday, September 17th, covering the August CPI, real retail sales and earnings, followed by one 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

Structural Income Problems Continue—No Fundamental Economic or Financial-System Relief in Sight. Today's (September 16th) release of the 2013 *Income and Poverty* report had no surprises.

Annual real (inflation-adjusted) median household income for 2013 was consistent with the monthly numbers published regularly by www.SentierResearch.com. The headline annual number showed a small but statistically-insignificant 0.3% real increase in 2013 median annual household income, versus 2012, which showed an unrevised, statistically-insignificant 0.1% (-0.1%) decline versus 2011.

Shown in the graphs that follow, whether annual or monthly, median household income plunged through the 2007 recession into 2011, with stagnation in activity in the 2011-to-2013 period, and thereafter, around the cycle low. That pattern does not follow the official and politically-correct version of an economic recovery starting in mid-2009, but it is consistent with the patterns of activity seen housing starts and consumer confidence, which are not dependent on the magnitude of inflation for their reporting.

A statistical illusion of economic recovery has been created through the use of understated inflation in deflating the U.S. Gross Domestic Product (GDP), as discussed most recently in [Commentary No. 653](#) and in [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), and [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#).

In addition, income variance or dispersion, measures of the concentration or distribution of income away from the middle, held at or hit record highs in 2011-to-2013, with the fluctuations in level of variance in 2012 and 2013, versus 2011, statistically insignificant. Those variance readings continue to be severely-negative, longer-term leading indicators of financial-market and economic activity.

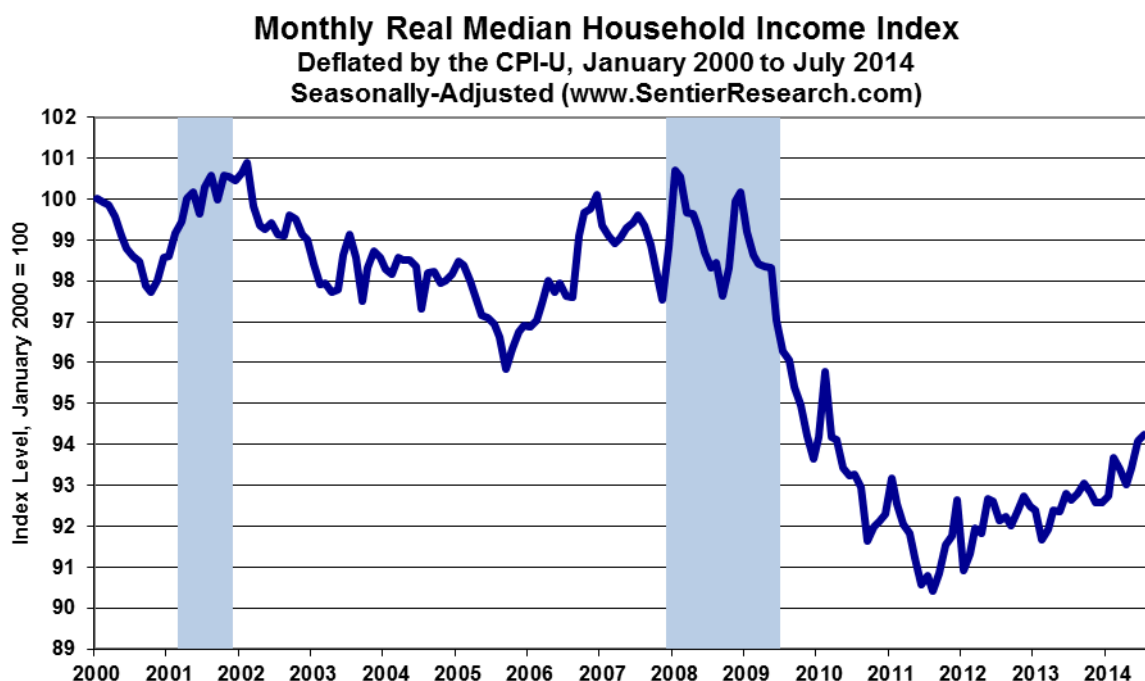
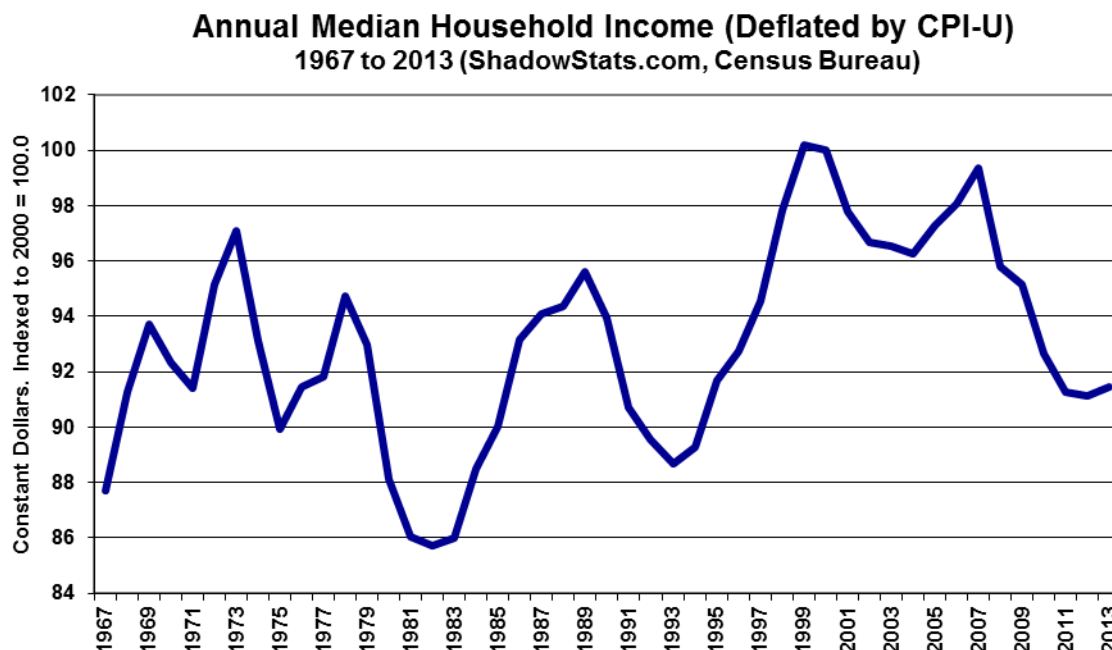
The Surveys. The government's traditional annual surveying of income, poverty and health insurance was divided into two reports for 2013, [Income and Poverty](#) and [Health Insurance](#), due to total revamping of the insurance survey. A cursory look at the poverty report showed it to be as heavily politicized, subjective and not reflective of common experience, as usual. The insurance survey was of limited value, having been designed deliberately so as to not be comparable with any earlier surveys. There remains merit, however, in the income series surveyed by the Census Bureau, as covered here.

The PPI. Separately, this morning's reporting of the usually unstable Producer Price Index (PPI) showed unchanged monthly wholesale inflation for August 2014. That was slightly weaker than market expectations, but annual PPI inflation still picked up a notch, to 1.8%.

The balance of this missive, the third of five consecutive business days of *Commentaries*, concentrates on the updated data for annual real median household income in these *Opening Comments*, and on the August 2014 PPI reporting in these *Comments*, as well as in the *Reporting Detail*. A review of the latest economic data will accompany Thursday's *Commentary No. 660*.

Income Conditions Are Not Getting Better; Economic and Financial Outlook Remains Bleak.

[Some language used in this section has been updated from prior analyses of these issues.] Discussed frequently in ShadowStats *Commentaries*, consumers simply cannot make ends meet. As shown in the first graph following, inflation-adjusted, or real, median household income, on an annual basis, declined or held stagnant at a low level of activity for the sixth-straight year, holding at its lowest level in 19 years, or since 1994. Deflated by the CPI-U, the 2013 median household income reading actually stood below levels reported in the late-1960s and early-1970s. The Census reporting confirmed, again, the ongoing quality of the monthly real median household income data published by www.SentierResearch.com, whose numbers are plotted in the second graph following.



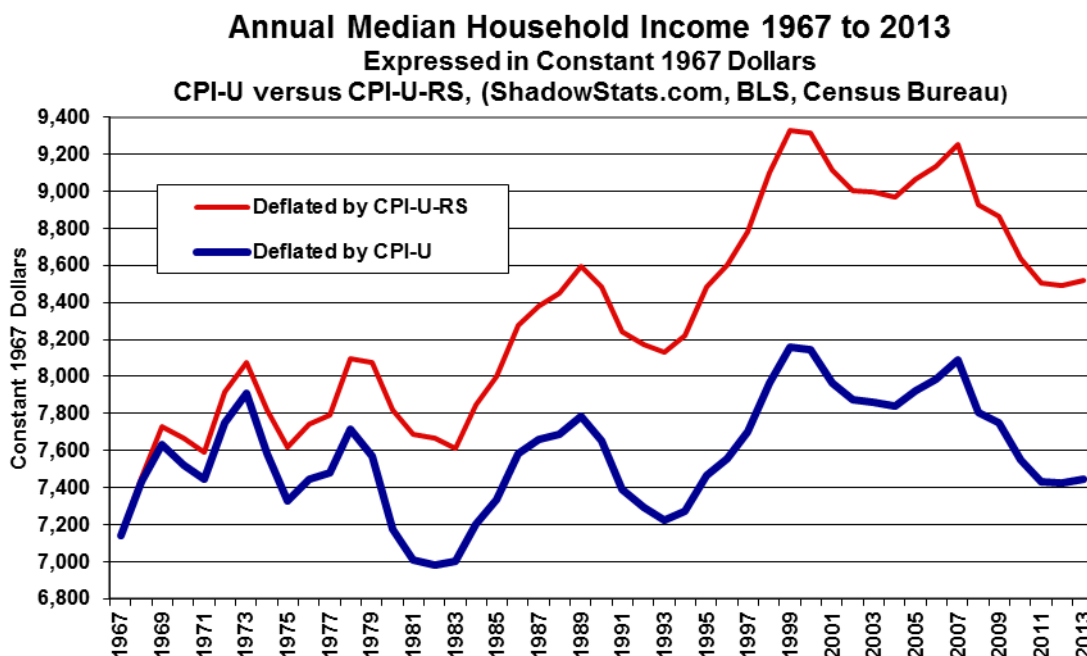
Real Median Household Income Is at Its Lowest Level Since 1994. Real annual median household income held-even with the low levels of activity seen in 2011 and 2012, with the minor annual fluctuations of minus 0.1% (-0.1%) in 2012, and plus 0.3% in 2013, statistically insignificant. On that basis, the level was the lowest seen since 1994, and was lower than levels indicated for the late-1960s, early-1970s, late-1980s and, again, everything since 1994, using the CPI-U as a deflator. As indicated by the Sentier Research numbers, and confirmed broadly by the Census data, consumer income contracted

into the formal 2007 recession, with the decline in income accelerating into the period of the purported post-June 2009 economic recovery. With the Sentier numbers now stagnant at a low level of activity, and consumers' inability to expand borrowing in order to make up for shortfalls in income, the chances of there having been a full economic recovery since 2009 (as reflected in the GDP), or of a recovery pending in the immediate future, remain nil.

The first graph, preceding is the Census series of annual real median income, as deflated by the CPI-U and indexed to 2000 = 100. The second graph is based on Sentier's monthly data on real median household income, as deflated by the CPI-U and indexed to January 2000 = 100. Where the index overlapping is not exact, the annual patterns seen in the Census data are broadly consistent with the Sentier data for the period 2000 to 2013. The Sentier numbers continue through July 2014 reporting.

The median household income measure is the middle measure of the survey of household income. It likely is a better reflection than a mean or average household income measure as to how most households are doing, when the income dispersion measures are high. Those measures are at record highs in 2011-to-2013, as discussed shortly.

Census Bureau Plays Games with the Official CPI-U Inflation. The next graph shows median household income deflated using two Bureau of Labor Statistics (BLS) inflation measures, the CPI-U (official) and the CPI-U-RS (experimental). With the CPI-U-RS, 2013 median household income held at its lowest levels since 1995 (not 1994) and was below earlier annual reporting only since the late-1980s. An emphasis is made here that these graphs are using alternate government inflation numbers, not any alternate ShadowStats inflation measure, which would show more-severe inflation damage to income.



The CPI-U (All Urban Consumers) is the headline consumer-inflation number published by the BLS and the one most commonly used in deflating consumer-related dollars. The BLS uses the CPI-U when deflating its own broad income measures, and it is the inflation measure used in deflating the monthly median household income measures published by Sentier Research. Again, in the case of the median household income series deflated by the CPI-U, the 2013 level of median household income is below the levels seen in the late-1960s and early-1970s. The Census Bureau appears to have used the official CPI-U in its annual poverty reports as recently as 2003. No other major government entity appears to use the CPI-U-RS inflation gimmick, at present.

The CPI-U-RS (Current Methods) is a special, experimental version of the CPI-U, with its history restated so as to reduce earlier-year inflation by imputing what it would have been, using today's "advanced" CPI reporting methodologies. The CPI-U-RS is the index used by the Census Bureau in deflating income numbers in the *Poverty Report* since 2003. It also is the series reverse-engineered by ShadowStats.com for constructing the ShadowStats Alternate CPI estimates, as discussed in the [Public Comment on Inflation](#) and in [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), and [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#).

The CPI-U-RS is used by the Census Bureau in its *Poverty Report* only for the historical income estimates and related detail (but not for the poverty-threshold estimates):

“The Office of Management and Budget’s (OMB) Statistical Policy Directive 14 directs the Census Bureau to use the CPI-U [not the CPI-U-RS, ShadowStats brackets] to update the poverty thresholds each year for changes in the cost of living.” [From *Income and Poverty in the United States: 2013*, page 22].

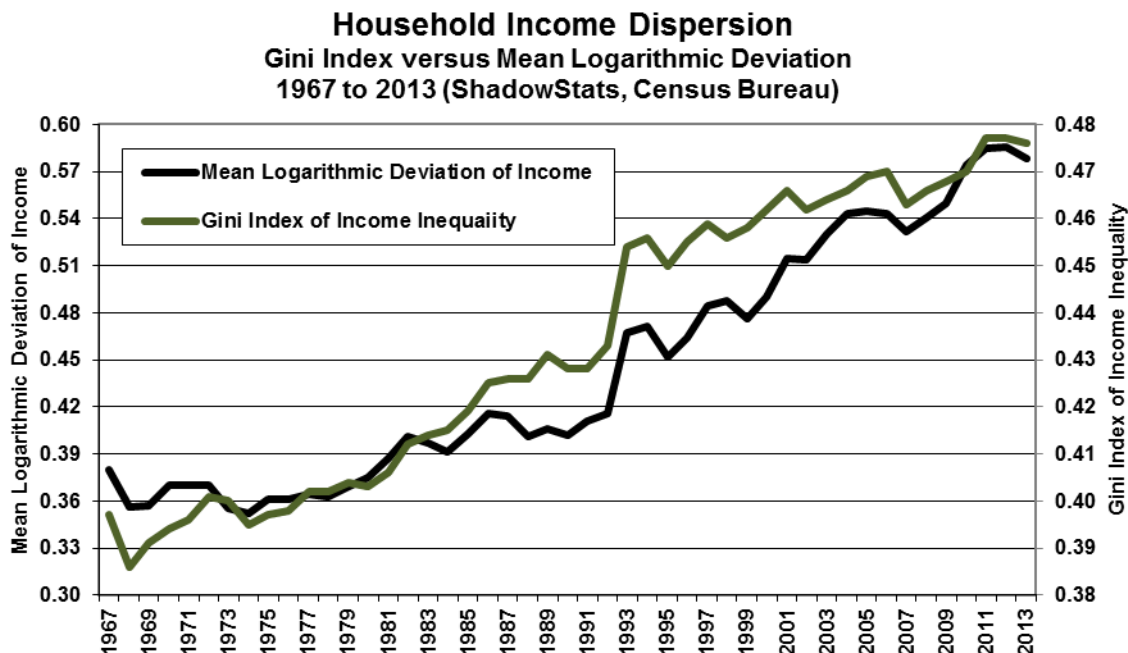
Using CPI-U-RS for the historical income estimates enables Census to report the survey details with artificially-reduced historical inflation levels (or artificially reduced cost-of-living estimates). The result is an artificially-enhanced, stronger inflation-adjusted pattern of income levels and growth (the red, narrower line in the preceding graph), than what usually would be seen in the official, weaker picture (heavy blue line) based on deflation using the traditional CPI-U.

Rising and Record Income Dispersion Levels Tend to Foreshadow Economic and Financial-Market Turmoil. Despite—or perhaps due to—the ongoing nature of the economic and systemic-solvency crises, and the effects of the 2008 financial panic, income dispersion—the movement of income away from the middle towards both high- and low-level extremes—has held at or hit record highs, instead of moderating, as often has been seen otherwise during periods of financial distress.

Measures of income dispersion, or variance, indicate how income is distributed within a population. A low level of income dispersion indicates that income tends to be concentrated in the middle, while a high level of dispersion indicates heavier income concentrations in the extremes of low and high income, with less in the middle. The higher the variance of income, the greater is the income dispersion.

Shown in the following graph are the Gini Index of Income Inequality and the Mean Logarithmic Deviation of Income (MLD), two of the more popular income dispersion series. Some of the finer points and mathematics behind several of the income variance measures are covered in the Census Bureau’s article: [The Changing Shape of the Nation’s Income Distribution](#).

Extremes in income dispersion usually foreshadow financial-market and economic calamities. With the current circumstance at a record extreme for 2011-to-2013, well above levels estimated to have prevailed before the 1929 stock-market crash and the Great Depression, increasingly difficult times are likely for at least the next several years.



Generally, the more moderate the income variance is, the stronger the middle class is, and the healthier the broad economy will be in the longer term. Conversely, the greater the variance in income is, the more negative are the longer-term economic implications. For example, a person earning \$100,000,000 per year is not going to buy proportionately more automobiles than someone earning say \$100,000 per year, so a strong middle class generally is a better circumstance for the auto industry than is extreme income dispersion.

Conditions surrounding extremes in income variance usually help to fuel financial-market bubbles, which frequently are followed by financial panics and economic depressions. The sequence of those factors tends to redistribute income in a manner that usually lowers income variance, helping economic recovery. Other than for a brief dip following the 1987 stock-market crash, however, U.S. income variance since 1987 has been higher than has been estimated for the economy going into the 1929 stock-market crash and the Great Depression, and its current reading remains nearly double that of any other “advanced” economy. Instead of being tempered by the 2008 financial panic and the ongoing economic and systemic-solvency crises, variance increased to a record level for 2011, 2012 and 2013. That suggests that the greatest negative impact of the systemic turmoil, so far, has been on those in the middle-income area. It also is suggestive of even greater financial and economic crises still ahead.

Producer Price Index (PPI)—August 2014—Annual Inflation Notched Higher. The recently-designed and redefined PPI showed unchanged month-to-month wholesale inflation for August, which was just a notch below market expectations for this highly volatile, unstable and questionable series. Nonetheless, annual inflation was 1.8% for August, up from 1.7% in July.

The aggregate monthly “unchanged” reading reflected negative 0.35% (-0.35%) headline monthly goods inflation, depressed again by downside seasonal adjustments to energy inflation, along with headline declining food and neutral “core” inflation, offset by a 0.27% headline increase in services inflation. Not headlined, but of potential import to construction spending numbers in real terms, adjusted for changing costs, “final demand construction” inflation was unchanged for the month, but annual inflation held at 3.2%, just a notch below the 3.3% year-to-year reading for July 2014.

August 2014 Headline PPI Detail. The seasonally-adjusted, month-to-month, headline producer price index (PPI) for August 2014 “total final demand” was unchanged at 0.00%, following a 0.09% gain in July. The aggregate impact of the various seasonal adjustments on the headline monthly August number was negative, where the unadjusted monthly inflation rate was an increase of 0.09%. On a not-seasonally-adjusted basis—all annual growth rates are unadjusted—year-to-year headline PPI inflation rose to 1.83% in August 2014, up from annual inflation rate of 1.74% in July 2014, and 1.67% in August 2013.

In terms of the three major subcategories for August 2014 “final demand” PPI, headline monthly “final demand goods” inflation contracted by 0.35% (-0.35%), “final demand services” inflation was up by an offsetting 0.27%, and “final demand construction” inflation was unchanged at 0.00%.

Final Demand Goods. Running somewhat in parallel with the old “finished goods” PPI series, headline monthly “final demand goods” inflation in August was down by 0.35% (-0.35%), having been unchanged at 0.00% in July, with an aggregate negative impact on the August reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, headline August final demand goods inflation contracted by 0.26% (-0.26%). Year-to-year inflation was 1.68% in August 2014, versus 2.04% in July 2014, and against 0.71% in August 2013. Headline monthly changes by major components for August 2014 final demand goods:

- “Foods” inflation was down by 0.49% (-0.49%) in August, having been up by 0.41% in July, with the August inflation rate unaffected by seasonal adjustments.
- “Energy” inflation fell by 1.49% (-1.49%) in August, having been down 0.58% (-0.58%) in July, with the August reading depressed by seasonal adjustments.
- “Less foods and energy” (‘core’ goods) inflation was unchanged at 0.00% in August, having been up by 0.18% in July. Seasonal adjustments were neutral for the August reading.

Final Demand Services. Headline monthly “final demand services” inflation rose by 0.27% in August, following a 0.09% gain in July. The overall impact on the August services inflation reading from underlying seasonal-factor adjustments was nil. Year-to-year unadjusted inflation was 1.86% in August 2014, up from annual inflation of 1.58% in July 2014, and against 2.19% in August 2013. The headline monthly changes by major components for August 2014 final demand services inflation:

- “Services less trade, transportation and warehousing” inflation rose 0.28% for the month of August, versus an unchanged 0.00% reading in July, with positive impact from seasonal adjustments.
- “Transportation and warehousing” inflation rose by 0.34% in August, following a 0.51% gain in July. Seasonal adjustments reduced the level of headline August inflation.
- “Trade” inflation was unchanged at 0.00% in August, following a monthly gain of 0.18% in July for the second month. Seasonal adjustments here also reduced the level of headline August inflation.

Final Demand Construction. Although a fully self-contained subsection of the Final Demand PPI, “final demand construction” inflation receives no formal headline coverage. Nonetheless, there are headline numbers published. Headline monthly construction inflation was unchanged in August 2014, following a headline gain of 0.45% in July 2014. The impact of seasonal factors on the headline number was negative. On an unadjusted basis, year-to-year inflation was 3.16% in August 2014, versus 3.26% in July 2014, and 1.70% inflation in August 2013.

[For further discussion on the August PPI, see the Reporting Detail section.]

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 through September 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

PRODUCER PRICE INDEX—PPI (August 2014)

Annual PPI Inflation Notched Higher. The recently-designed and redefined PPI showed unchanged month-to-month wholesale inflation for August, which was just a notch below market expectations for this highly volatile, unstable and questionable series. Nonetheless, annual inflation was 1.8% for August, up from 1.7% in July.

The aggregate monthly “unchanged” reading reflected negative 0.35% (-0.35%) headline monthly goods inflation, depressed again by downside seasonal adjustments to energy inflation, along with headline declining food and neutral “core” inflation, offset by a 0.27% headline increase in services inflation. Not headlined, but of potential import to construction spending numbers in real terms, adjusted for changing costs, “final demand construction” inflation was unchanged for the month, with annual inflation holding at 3.2%, just a notch below the 3.3% year-to-year reading for July 2014.

Discussed in [Commentary No. 591](#), a new producer price index (PPI)—effective with January 2014 reporting—replaced the traditional headline monthly measure of wholesale inflation in “finished goods,” with a headline monthly measure of wholesale “total final demand,” composed of “final demand goods” (basically the old “finished goods” series), “final demand services” which tends to cap the goods inflation when oil prices are an issue, and “final demand construction.”

In the new structure of the PPI series, “final demand services” largely reflects problematic and questionable surveying of intermediate or quasi-wholesale profit margins in the services area. To the extent that profit margins shrink in the services sector, one could argue that the resulting lowered estimation of inflation actually is a precursor to higher inflation, as firms move to raise prices in an effort to regain more-normal margins. The new PPI series is an interesting concept, but likely limited as to its aggregate predictive ability versus general consumer inflation. There is not enough history available on the new series (just five years of post-2008-panic data) to establish any meaningful predictive relationship to general inflation, while the goods sector relationship has been established for many years.

August 2014 Headline PPI Detail. The Bureau of Labor Statistics (BLS) reported, this morning, September 16th, that the seasonally-adjusted, month-to-month, headline producer price index (PPI) for August 2014 “total final demand” was unchanged at 0.00%, following a 0.09% gain in July. The aggregate impact of the various seasonal adjustments on the headline monthly August number was negative, where the unadjusted monthly inflation rate was an increase of 0.09%. On a not-seasonally-adjusted basis—all annual growth rates are unadjusted—year-to-year headline PPI inflation rose to 1.83% in August 2014, up from annual inflation rate of 1.74% in July 2014, and 1.67% in August 2013.

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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, near-term food inflation has been 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 across the board.

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:

Consumer Price Index—CPI (August 2014). The August 2014 CPI is scheduled for release tomorrow, 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 flat-to-down 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.