COMMENTARY NUMBER 668
September CPI, Real Retail Sales and Earnings, New-Home Sales, Prospective GDP
October 23, 2014

U.S. Government Prepares to Use Reduced-Inflation Index for Cost of Living Adjustments (COLA)

2015 Social Security COLA at 1.7%
Would Have Been 9.4% without Existing Gimmicks for Understating Inflation

September Annual Inflation: 1.7% (CPI-U), 1.6% (CPI-W), 9.4% (ShadowStats)

September Real Retail Sales Fell by 0.4%
September Real Earnings Fell by 0.4%

Existing-Home Sales Headline Gain Dominated by Surge in Distressed Properties
Year-to-Year Sales Contracted for Eleventh Straight Month

Real-World Indication of Faltering Third-Quarter Economic Activity

PLEASE NOTE: The next regular Commentary is planned for Tuesday, October 28th, covering September new orders for durable goods and new-home sales, followed by one on October 30th covering the "advance" or first estimate of third-quarter 2014 GDP.

Best wishes to all — John Williams
OPENING COMMENTS AND EXECUTIVE SUMMARY

Third-Quarter GDP Was Not As Strong As Advertised. The Bureau of Economic Analysis (BEA) will release its "advance" or first-estimate of third-quarter 2014 GDP one week from today, on October 30th. The outlook for the pending report is updated in the context of the latest underlying economic detail and a solid non-government-generated indicator of faltering economic activity in third-quarter 2014. Some downside surprises loom.

A Change in Inflation Methodology. Separately, yesterday's announcement by the Bureau of Labor Statistics (BLS) of an overhaul to CPI reporting is examined. While the BLS indicated that the changes would have "minimal" impact on headline inflation, those changes will help to usher in an era of the Chained-CPI-U (C-CPI-U) as the new benchmark for determining (and reducing) the government's widely-used cost-of-living-adjustment (COLA) measures.

Increasing Market Instabilities. Day-to-day financial news continues to be dominated by financial-market and political-system turmoil and instabilities. The outlooks for the political, financial and economic systems, and for the financial markets have not changed from the discussion in the October 10th Commentary No. 664, which reviewed domestic and global financial, economic and systemic circumstances. It remains the suggested reading for the current circumstance. ShadowStats will address breaking news and developing issues as appropriate.

Balance of Today's Missive. Beyond the reviews of pending GDP and the CPI overhaul, today's (October 23rd) rather extended missive concentrates on the reporting of the September 2014 Consumer Price Index (CPI), related measures of Real Retail Sales and Real Earnings, and September Existing-Home Sales.

In the Hyperinflation Watch section, minor changes were made to wording in the Hyperinflation Outlook Summary. The usual gold-related graphs are published at the end of that section.

Initial BEA Guesstimate of Third-Quarter GDP Will Tend to Target Consensus Outlook. With consensus expectations holding at about 3.0% for the annualized quarterly real growth rate for third-quarter 2014 GDP, the headline reporting likely will come in close to consensus, possibly with some downside surprise. A major downside shock is not likely just four days before the midterm election.

The initial GDP guess should be dominated by a positive boost from the net-exports account, which is based on just two months of partial data. Pending trade deficit reporting and revisions (November 4th) could knock down the initial GDP growth estimate sharply, in the two subsequent GDP revisions, to below two-percent, and potentially into negative territory, along with other factors. In any event, a likely initial headline GDP growth estimate, near market expectations, would not be statistically-significant.

Updating Commentary No. 667, which detailed sharply slowing quarterly growth, second-quarter 2014 to third-quarter, for industrial production, housing starts and nominal retail sales, quarterly real retail sales
now is available, as detailed in this Commentary. Annualized real growth in quarterly retail sales slowed sharply, to 2.78% in third-quarter 2014, from 6.49% in second-quarter 2014, and against an annualized real contraction of 0.97% (-0.97%) in first-quarter 2014.

**Real S&P 500 Sales Down in Third-Quarter 2014.** Updated from Commentary No. 664 of October 10th, the following graph reflects an estimate of third-quarter 2014 real S&P 500 sales, adjusted for CPI-U inflation and varying shares outstanding. Although not-seasonally-adjusted, S&P sales activity broadly has not reflected the ongoing and expanding recovery of the seasonally-adjusted headline real GDP activity. After declining in first-quarter 2014, it did rise in second-quarter 2014, but it turned lower again in third-quarter 2014.

Sales of the S&P 500 are a real-world measure of domestic economic activity, not gimmicked by the modeling, imputations and assumptions underlying the headline GDP detail. Irrespective of potential seasonal factor issues, the real world is not showing the illusion of economic recovery otherwise being published by the government's statistical Bureaus.

![Quarterly Real GDP versus S&P 500 Sales](image)

**New CPI Inflation Methodology.** The BLS announced a "new estimation system for the Consumer Price Index" (see page 5 of the September 2014 Press Release and More Information), effective with the release of January 2015 data on February 26, 2015. The BLS indicated that, "The net impact of these changes on the All Items U.S. City Average level is expected to be minimal." That remains to be seen.
The changes to the Chained-CPI-U (C-CPI-U), however, will be meaningful. By changing from "geometric weighting" to "constant elasticity of substitution," the BLS purportedly will be able to better guess at what the C-CPI-U should be, and it will cut the revision period for the CPI-U by more than a year, making its use as a cost-of-living-adjustment (COLA) base much more practicable.

**Grooming the C-CPI-U to Be the Primary Inflation Measure.** The changes likely will help to usher in an era of the C-CPI-U as the new benchmark for determining the government’s cost-of-living adjustment (COLA) measures and headline inflation, with a resulting further downside adjustment to official headline inflation being set in motion. The C-CPI-U would reduce COLA adjustments from what they would have been otherwise, a cost-cutting measure already agreed to in principle by the Congress and White House as a tool for reducing the federal deficit.

The following text had been standard in the monthly ShadowStats Commentaries on the CPI since the beginning of 2014: "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."

Well, good-bye to the geometric-weighting sham; it automatically reduced the weighting of any inflation component going up in price, and increased the weighting of any component going down in price. It had no good theoretical basis for weighting components for the "substitution effect" (*i.e.*, hamburger versus more-expensive steak).

And a not so happy hello to the greater sham of constant elasticity of substitution, which will allow the BLS to guess at final CPI weightings, using its mathematical models, instead of having to have actual information in hand, or being able to revise data later with the actual numbers in hand. The approach here simply is to minimize the reported headline inflation with a fully substitution-based CPI (as opposed to a fixed-weight CPI that measures the cost of living of maintaining a constant standard of living, as the CPI once was), with weightings determined by BLS modeling instead of hard surveying (see Public Comment on Inflation Measurement).

This federal cost-cutting fraud of falsely reducing COLA-related inflation has been used repeatedly and successfully by the government, at the expense of the average American, ranging from retirees on Social Security to those having their tax brackets adjusted for inflation. Changes to CPI reporting over the decades consistently have degraded the inflation measure.
2015 COLA at 1.7%, Well Shy of Common Experience. As expected (see Commentary No. 667), based on yesterday's reporting of third-quarter 2014 CPI-W, the CPI-W-based official cost-of-living-adjustment (COLA) for Social Security, and for a variety of other government programs and policies, came in at 1.7%, effective for January 2015, up from 1.5% for 2014. Net of inflation-reducing changes made to CPI calculations of recent decades, however, the 2015 COLA adjustment should have been about 5.2%, based on the CPI reporting methodology in place as of 1990, or about 9.4%, based the CPI reporting methodology in place as of 1980 (see ShadowStats Alternate Consumer Inflation Measure).

Consumer Price Index (CPI)—September 2014—Small Headline Inflation Deepened Real Contractions in Retail Sales and Earnings. Although the headline monthly inflation rates in the September 2014 CPI-U and CPI-W both were a relatively tepid 0.1%, they were enough to push already contracting retail sales and average weekly earnings into deeper, real (inflation–adjusted) contractions, with both series down by 0.4% for the month. Those were steepest real monthly declines since January 2014 for retail sales, and since December 2013 for real average weekly earnings. As near-term broad economic growth continues to slow, and as headline inflation continues to notch higher, the slowdown in activity in both nominal and real terms increasingly should shift market expectations towards a renewed and deepening economic downturn.

CPI-U. The headline, seasonally-adjusted CPI-U for September 2014 rose month-to-month by 0.09%, following a decline of 0.20% (-0.20%) in August. On a not-seasonally-adjusted basis, the September CPI-U rose month-to-month by 0.08%, versus a decline of 0.17% (-0.17%) in August. Also not-seasonally-adjusted, September 2014 year-to-year inflation for the CPI-U was a gain of 1.66%, versus 1.70% in August 2014.

Encompassed by the headline September 2014 CPI-U seasonally-adjusted gain of 0.09% (0.08% unadjusted), aggregate September energy inflation fell by an adjusted 0.70% (-0.70%) [down by an unadjusted 1.54% (-1.54%)]. In the other major CPI sectors, adjusted food inflation was up by 0.30% for the month [up by 0.31% unadjusted], while "core" inflation was up by 0.14% [up by 0.22% unadjusted]. Core inflation also showed unadjusted year-to-year inflation of 1.73% in September 2014, versus 1.72% in August 2014.

CPI-W. The September 2014 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose by 0.10% (up by 0.06% unadjusted), following a seasonally-adjusted monthly decline of 0.26% (-0.26%) [down by 0.21% (-0.21%) unadjusted] in August. Also unadjusted, September 2014 year-to-year CPI-W inflation was 1.58%, versus 1.59% in August 2014.

Chained-CPI-U. Initial reporting of unadjusted year-to-year inflation for the September 2014 C-CPI-U was 1.50%, versus 1.54% in August. See the earlier discussion in these Opening Comments on the just-announced, forthcoming changes to the calculation of consumer inflation, designed to help set-up the C-CPI-U as a new measure for a reduced-inflation, cost-of-living-adjustment (COLA) for Social Security, etc.

Alternate Consumer Inflation Measures. The ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—annual inflation was roughly 5.2% in September 2014, versus 5.3% in August. The ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to
official CPI reporting methodologies back to 1980, held at about 9.4% in September 2014, the same as in August at the first decimal point.

**Real (Inflation-Adjusted) Retail Sales—September 2014—Down by 0.41% for the Month.** In nominal terms, before adjustment for inflation, headline monthly retail sales declined by 0.32% (-0.32%) in September, versus a revised 0.59% (previously 0.58%) gain in August (see Commentary No. 665).

Based on the October 22nd reporting of a 0.09% headline monthly increase in the September 2014 CPI-U, and in the context of the prior August CPI-U headline 0.20% (-0.20%) CPI-U contraction, seasonally-adjusted real (inflation-adjusted) monthly retail sales fell by 0.41% (-0.41%) in September. That followed a 0.80% gain in August, revised minimally to the upside, and a downwardly revised 0.18% gain in July. Real retail sales activity peaked in August, and turned lower in September as reflected in the graphs of the Reporting Detail section.

On a quarterly basis, annualized real growth in retail sales slowed to 2.78% in third-quarter 2014, from 6.49% in second-quarter 2014, and against an annualized real contraction of 0.97% (-0.97%) in first-quarter 2014.

Year-to-year change in September 2014 real retail sales eased back to 2.61%, from a revised 3.27% gain in August, and a revised 2.09% gain in July, also as shown in the graphs of the Reporting Detail section. In normal economic times, annual real growth at or below 2.0% would signal an imminent recession. That signal had been given recently and remains in play, a signal that likely will serve as an indicator of renewed downturn in broad economic activity.

Suggested by September 2014 real earnings (see following section) and discussed in Commentary No. 665, underlying consumer liquidity conditions have not improved. With no fundamental growth in liquidity to fuel increasing consumer activity, there has been no recovery, and no basis for a recovery in real retail sales or in real personal consumption, which dominates headline GDP reporting.

**Corrected Real Retail Sales.** The apparent “recovery” in the headline real retail sales series continues, due to the understatement of the rate of inflation used in deflating the retail sales 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.

Both graphs following are indexed to January 2000 = 100.0 to maintain consistency in the series of graphs related to corrected inflation-adjustment. The first graph reflects the official real retail sales series, except that it is indexed, instead of being expressed in dollars. The plotted patterns of activity and rates of growth are exactly same for the official series, whether it is indexed or in dollars, as can be seen in the comparison with the first plot of real retail sales in the Reporting Detail section.

Instead of being deflated by the CPI-U, the “corrected” real retail sales numbers—in the second graph—use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation. With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation and renewed downturn, consistent with patterns seen in series such as real median household income, the consumer confidence measures, unemployment and most 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 trended, so far, into 2014, allowing for the occasional and temporary upside blip.

Real (Inflation-Adjusted) Average Weekly Earnings—September 2014—Down for the Month by 0.39% (-0.39%). In the production and nonsupervisory employees category—the only series for which there is a
meaningful history—headline real average weekly earnings fell by 0.39% (-0.39%) in September, reflecting a headline increase of 0.10% in the seasonally-adjusted CPI-W and a 0.30% (-0.30%) drop in nominal earnings (there is a rounding differential), before inflation adjustment. Net of prior-period revisions, the monthly contraction in September real earnings was 0.14% (-0.14%).

The decline in real September earnings was against a revised 0.85% (previously a 0.55%) gain in August and a revised 0.07% (previously a 0.12%) gain in July.

Year-to-year and seasonally-adjusted, September 2014 real average weekly earnings rose by 0.99% versus a revised 1.17% gain in August. On an unadjusted basis, September real earnings fell year-to-year by 0.39% (-0.39%), versus a 1.17% gain in August. 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 are due to the instabilities in BLS surveying and compilation of the average weekly earnings estimates.

The accompanying graph of this series plots the earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate Consumer Inflation 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—September 2014—Rose for the Month, Fell Year-to-Year for the Eleventh Straight Month. Despite September 2014 new-home sales rising by 2.4% month-to-month to a high for 2014, annual sales declined once again, for the eleventh month. The September 2014 headline annual sales pace of 5,170,000 (an average monthly pace of 430,833) also remained down by 28.9% (-28.9%) from the June 2005 pre-recession peak in activity.

September Existing-Home Sales Rose 2.4% to 2014 High, But Fell 1.7% (-1.7%) Year-to-Year. Tuesday's (October 21st) release of September 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted 2.4% month-to-month gain, following an unrevised 1.8% (-1.8%) monthly decline in August.

On a year-to-year basis, September 2014 annual sales declined by 1.7% (-1.7%), having been down year-to-year by 5.3% (-5.3%) in August 2014. September was the eleventh consecutive month where headline sales were below those of the year before. That is the longest period of annual decline in the existing-home series since before the official end of the recession in June 2009.

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 quality of data remains questionable.

Distressed Sales Jump by 2.0%. The NAR estimated that the portion of total September sales in "distress" rose to 10% (7% foreclosures, 3% short sales), versus the August reading of 8% of the total (6% foreclosures, 2% short sales). The increase in distressed sales, applied to the seasonally-adjusted numbers, accounted for 86% of the headline monthly sales gain. Not-seasonally-adjusted, monthly aggregate sales fell by 9.2%.

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 September 2014 rose to 24% of the total, up from 23% in August 2014, but down from 33% in September 2013.

Bleak Outlook Continues, Based on Underlying Consumer Fundamentals. Most-recently discussed in Commentary No. 665, there has been no improvement in underlying consumer liquidity conditions. Correspondingly, with no fundamental growth in liquidity to fuel increasing consumer activity, there is no basis here for expecting an imminent recovery in the housing market.

Existing-Home Sales Graph. The regular monthly graph of existing-home sales activity follows. For comparison, a graph also is included of smoothed September housing starts for single-unit construction (see Commentary No. 667).
Existing Home Sales (Not-Annualized Monthly Level)
To September 2014, Seasonally Adjusted (ShadowStats.com, NAR, HUD)

Single-Unit Housing Starts (Six-Month Moving Average)
To September 2014, Seasonally-Adjusted (ShadowStats.com, Census)

[For further detail on the September Consumer Price Index, Real Retail Sales and Earnings, and Existing-Home Sales, see the Reporting Detail section. Various drill-down and graphics options on the headline CPI data are available to ShadowStats subscribers at our affiliate: www.ExpliStats.com].

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HYPERINFLATION WATCH

Hyperinflation Outlook Summary. The usual monthly gold graphs follow at the end of this section. There are minor text revisions (see underlined text) to the following Summary, that otherwise was updated most recently in Commentary No. 664 of October 10th. If this section is being read for the first time, reading it in the context of the Opening Comments of No. 664 (linked above), is suggested. The prior version of the Summary is found in Commentary No. 661.

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 Commentary No. 661. The two 2014 Hyperinflation Report installments remain the primary background material for the hyperinflation and economic analyses and forecasts.

Primary Summary. Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by unfettered monetization of the national debt and obligations, leading to an eventual hyperinflation. The 2008 Panic and near-collapse of the financial system, and official (U.S. government and Federal Reserve) response to same, pulled the elements of the eventual hyperinflation crisis into the 2014 period. The primary and basic summary of the broad outlook and the story of how and why this fiscal, financial and economic 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 and recent developments.

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, despite sharp recent rallies in the U.S. dollar’s exchange rate and related heavy selling in the gold and silver markets.

Current relative U.S. economic strength versus major U.S. trading partners is seriously over-estimated, with a crash back to recognition of realistic domestic-economic circumstances likely to be accompanied by a crash in the U.S. dollar versus major currencies, such as the euro, yen, pound, Swiss franc, Canadian dollar and Australian dollar; related rallies in precious metals and oil; and related sell-offs in the domestic stock and bond markets.

Current Economic Issues versus Underlying U.S. Dollar Fundamentals. U.S. economic activity is turning down anew. The headline contraction in first-quarter 2014 GDP was the reality; the headline
second-quarter GDP boom was the aberration. Such should become increasingly and painfully obvious to the financial markets in the domestic economic reporting of the weeks and months ahead.

New reporting of relatively hard annual numbers from 2013 showed ongoing economic contraction, with no trend towards sustainable economic growth (see Commentary No. 656). Also, as discussed in today’s Opening Comments section and Commentary No. 664, real business activity—net of all the happy assumptions and modeling used by the Bureau of Economic Analysis in putting the GDP growth estimates together—has been flat-to-minus, with real sales of the S&P 500 suggesting a decline in third-quarter 2014 activity.

Despite any short-term pre-election fluff, those basic underlying, increasingly negative economic conditions will show up in various series, such as the trade deficit, retail sales, industrial production and payroll employment, providing consensus expectations with downside shocks. In turn, that should shift the popular outlook quite rapidly towards a “new recession,” with negative shifts in the economic consensus further disrupting the already-disintegrating stability in the financial markets.

As financial-market expectations shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, specifically 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 and ongoing "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 cover of a weakening economy—a renewed, deepening contraction in business activity.

Accordingly, some speculation already has begun to circulate as to an added round of Federal Reserve quantitative easing, QE4. That would be a major factor behind crashing the dollar and boosting the price of gold. The Fed has strung out its options for propping up the system as much as it could, with continual, negative impact on the U.S. economy. The easing to date, however, appears to have been a prop to the equity markets (see Commentary No. 663). In the event of QE4, any resulting renewed boost to U.S. equities likely would be a fleeting illusion, at least in terms of real value (purchasing power of the dollar). Such gains would tend to be losses, in real terms, with the stocks valued in terms of Swiss francs, for example, or valued against what would be a rapidly-increasing pace of domestic U.S. inflation.

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 and accounting projections, where comparative year-ago cash numbers recently were 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 should combine against the U.S. dollar, likely in the very-near future. That said, recent faux market perceptions of domestic economic, financial-system and monetary tranquility have boosted the U.S. dollar's strength significantly in global trading and have contributed to savaging the prices of precious metals. Again, such should not prevail in the context of underlying reality. The actual
fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed. The key issues 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 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 has continued to run in the $6-trillion-plus range for annual shortfall—and should have done so again in the just-completed fiscal-2014—while those in Washington continue to increase spending and to take on new, unfunded liabilities. The history and issues here are explored in the first installment of the *Hyperinflation Report*, as previously linked.

- **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.** Despite the "tapering" of the Fed's asset purchases, the current pace of the Fed's monetization was at 58.9% of effective net issuance of the federal debt to be held by the public in calendar-year 2014 (through October 8th). The pace of effective monetization was 66.0% since the January 2013 expansion of QE3.

- **Mounting domestic and global crises of confidence in a dysfunctional U.S. government.** The relative positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, with a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. The weaker the rating, the weaker tends to be the U.S. dollar. Positive ratings for both the President and Congress are at historic lows and still are sinking.

- **Mounting global political pressures contrary to U.S. interests.** Downside pressures on the U.S. currency generally are mounting, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the situation in Ukraine versus Russia and the extremely-volatile circumstances in the Middle East.

- **Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.** Active efforts or comments against the U.S. dollar have been seen with Russia, China, France and India, along with some rumblings in OPEC and elsewhere.

When the selling pressure breaks massively against the U.S. currency, the renewed and intensifying weakness in the 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. These circumstances will trigger the early stages of a hyperinflation.

Both the renewed dollar weakness and the resulting inflation spike 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.
**Monthly Gold Graphs.** The recent sharp rally in the value of the U.S. dollar and the related heavy selling of gold and silver have backed off minimally. Selling pressure on oil has continued, likely tied specifically to U.S. efforts to place Russia under increased financial stress. Given mixed pressures from other global political instabilities, which are not likely to abate, oil prices also should face significant, separate upside pressure when the U.S. dollar comes under heavy selling pressure.

Panicked selling of the U.S. dollar remains likely, as economic reality is hammered into the markets. Timing of a major swing in market sentiment, by its nature, is difficult to call, but the shift to massive dollar selling easily could come in the immediate future. It likely will hit with little advance notice. Again, the prices of oil and precious metals should rally sharply on a coincident basis with that currency crisis. Heavy selling of domestic stocks and bonds should intensify at the same time, as well.

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, but they have been updated more recently in *Commentary No. 664* of October 10th. Extremely volatile markets have continued, amidst mounting and shifting global political tensions, a rapidly weakening U.S. economy. Related market fears also center on worsening fiscal and monetary instabilities, and rapidly deteriorating domestic political circumstances.

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, again, irrespective of unusual, recent price volatility. Market movements increasingly should reflect the fundamentals. The "Latest October" price points in the graphs are as of mid-afternoon, New York time, October 22nd.
REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (September 2014)

2015 COLA at 1.7%, Well Shy of Common Experience. As expected, the CPI-W-based official cost of living adjustment (COLA) for Social Security, and for a variety of other government programs and policies, came in at 1.7% for 2015, up from 1.5% 2014. Net of inflation-reducing changes made to CPI calculations of recent decades, however, the 2015 COLA adjustment should have been about 5.2%, based on the CPI reporting methodology in place as of 1990, or about 9.4%, based the CPI reporting methodology in place as of 1980 (see ShadowStats Alternate Consumer Inflation Measure).

As discussed in the Opening Comments, with the changes to inflation calculation announced yesterday (October 22nd) by the BLS, the Chained-CPI-U clearly is being groomed to take over from the CPI-W as the primary government COLA/inflation measure, with a resulting further downside adjustment to official headline inflation being set in motion.

Inflation as viewed from the standpoint of common experience—generally viewed by the public in terms of personal income or investment use—continues to run well above any of the government’s rigged price measures. CPI reporting methodologies in recent decades deliberately were changed so as to understate the government’s reporting of consumer inflation, and that inflation-understatement fraud is being expanded. The pace of inflation has been understated, through efforts to adjust for economic substitutions in the CPI surveying (i.e., hamburger being purchased in lieu of more-expensive steak), and by not reflecting actual out-of-pocket costs in its surveying, with generally downside hedonic-quality adjustments made to prices, all as detailed in the Public Comment on Inflation Measurement.

Contrary to its traditional structure, the CPI no longer reflects the cost of living of maintaining a constant standard of living. As a result, those who set or target their income or investment growth to the government's faux headline CPI number simply cannot stay even with inflation, unless they massively exceed their targets.

Longer-Range Inflation Outlook. Going forward, and as discussed in 2014 Hyperinflation Report—The End Game Begins – First Installment Revised and in the Hyperinflation Watch section, high risk of a massive flight from the U.S. dollar threatens to generate rapid, upside energy and global-commodity inflation, which would drive headline U.S. consumer inflation much higher. Nascent dollar problems could surface and accelerate at any time, with little warning. Intensifying 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.
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 proffered 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.

CPI-U. The Bureau of Labor Statistics (BLS) reported yesterday, October 22nd, that the headline, seasonally-adjusted CPI-U for September 2014 rose month-to-month by 0.1% (0.09% at the second decimal point), following a decline of 0.2% (-0.2%) [down by 0.20% (-0.20%) at the second decimal point] in August. On a not-seasonally-adjusted basis, the September CPI-U rose month-to-month by 0.08%, versus a decline of 0.17% (-0.17%) in August.

Monthly Gasoline Prices. The BLS used a 2.1% (-2.1%) decline in not-seasonally-adjusted gasoline prices for September, where a 2.3% (-2.3%) decline was indicated by the more-comprehensive, industry-based surveying of the Department of Energy. This reflected minimal catch up from the BLS over-estimating a 4.1% (-4.1%) monthly gasoline price drop in August, versus the DOE survey change then of a 3.3% (-3.3%) decline. Somewhat in line with the prior-year's seasonal-adjustments to gasoline prices, the unadjusted 2.1% (-2.1%) price drop ended up as an adjusted 1.0% (-1.0%) monthly decline in September.

Major CPI Groups. Encompassed by the headline September 2014 CPI-U seasonally-adjusted gain of 0.09% (0.08% unadjusted), aggregate September energy inflation was down for the month by an adjusted
0.70% (-0.70%) [down by an unadjusted 1.54% (-1.54%)]. In the other major CPI sectors, adjusted food inflation was up by 0.30% for the month [up by 0.31% unadjusted], while "core" inflation was up by 0.14% [up by 0.22% unadjusted]. Core inflation also showed unadjusted year-to-year inflation of 1.73% in September 2014, versus 1.72% in August 2014.

Year-to-Year CPI-U. Not seasonally adjusted, September 2014 year-to-year inflation for the CPI-U was a gain of 1.66%, versus 1.70% in August.

Year-to-year, CPI-U inflation would increase or decrease in next month’s October 2014 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted "unchanged" (up by 0.02% at the second decimal point) monthly inflation reported for October 2013. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for October 2014, the difference in October’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the September 2014 annual inflation rate of 1.66%.

Quarterly CPI-U. Seasonally-adjusted, annualized quarter-to-quarter inflation for the CPI-U was 1.10% for third-quarter 2014, versus 3.03% for second-quarter 2014 and 1.91% for first-quarter 2014. Unadjusted, year-to-year quarterly inflation was 1.78% for third-quarter 2014, versus 2.05% for second-quarter 2014 and 1.41% for first-quarter 2014.

CPI-W. The September 2014 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose by 0.10% (up by 0.06% unadjusted), following a seasonally-adjusted monthly decline of 0.26% (-0.26%) [down by 0.21% (-0.21%) unadjusted] in August.

Year-to-Year CPI-W. Unadjusted, September 2014 year-to-year CPI-W inflation was 1.58%, versus 1.59% in August.

Quarterly CPI-W. Seasonally-adjusted, annualized quarter-to-quarter inflation for the CPI-W was 1.00% for third-quarter 2014, versus 3.07% for second-quarter 2014 and 1.79% for first-quarter 2014. Unadjusted, year-to-year quarterly inflation was 1.70% for third-quarter 2014, versus 2.03% for second-quarter 2014 and 1.31% for first-quarter 2014.

Chained-CPI-U. Initial reporting of unadjusted year-to-year inflation for the September 2014 C-CPI-U was 1.50%, versus 1.54% in August. See the discussion in the Opening Comments on the just-announced forthcoming changes to the calculation of consumer inflation, designed to help set-up the C-CPI-U as a new measure for a reduced-inflation, cost-of-living-adjusment (COLA) for Social Security, etc.

Quarterly C-CPI-U. Unadjusted, year-to-year quarterly inflation for the C-CPI-U was 1.64% for third-quarter 2014, versus 1.91% for second-quarter 2014 and 1.26% for first-quarter 2014.

Alternate Consumer Inflation Measures. Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—annual inflation was roughly 5.2% in September 2014, versus 5.3% in August. The ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, held at about 9.4% (9.38% for those using the second decimal point) in September 2014, against 9.4% in August.
[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 $2,601 per troy ounce, based on
September 2014 CPI-U-adjusted dollars, and $11,321 per troy ounce, based on September 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 September 2014 CPI-U inflation, the 1980 silver-price peak would be $151 per troy ounce and would be $659 per troy ounce in terms of September 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—September 2014—Down by 0.41% for the Month.** In nominal terms, before adjustment for inflation, headline monthly retail sales declined by 0.32% (-0.32%) in September, versus a revised 0.59% (previously 0.58%) gain in August (see Commentary No. 665).

Based on the October 22nd reporting of a 0.09% headline monthly increase in the September 2014 CPI-U, and in the context of the prior August CPI-U headline 0.20% (-0.20%) CPI-U contraction, seasonally-adjusted real (inflation-adjusted) monthly retail sales fell by 0.41% (-0.41%) in September. That followed a revised 0.80% (previously 0.78%) gain in August, and a downwardly revised 0.18% gain [previously up by 0.25%, initially down by 0.05% (-0.05%)] in July.

On a quarterly basis, annualized real growth in retail sales slowed to 2.78% in third-quarter 2014, from 6.49% in second-quarter 2014, and against an annualized real contraction of 0.97% (-0.97%) in first-quarter 2014.

Year-to-year change in September 2014 real retail sales eased back to 2.61%, from a revised 3.27% (previously 3.23%) gain in August, and a revised 2.09% (previously 2.17%, initially 1.65%) gain in July, as shown in the second and fourth graphs following. In normal economic times, annual real growth at or below 2.0% would signal an imminent recession. That signal had been given recently and remains in play, a signal that likely will serve as an indicator of renewed downturn in broad economic activity.

**Real Retail Sales Graphs.** The first of the following 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 the latest headline reporting. Year-to-year activity, which had plunged to a near-standstill in January and February, bounced back, peaking into August, but again ease some in the September reporting. 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 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 section, 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.

In addition, as further discussed in Commentary No. 665, 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 has begun 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 the general pattern of real earnings difficulties shown in the next section—these data should continue to trend meaningfully lower, in what should gain recognition as a formal new or double-dip recession.

Real (Inflation-Adjusted) Average Weekly Earnings—September 2014—Real Earnings Fell by 0.39% (-0.39%) for the Month. Coincident with the October 22nd September CPI-W release, the BLS also published real average weekly earnings for September. In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings (deflated by the CPI-W) fell by 0.39% (-0.39%), reflecting a headline increase of 0.10% in the seasonally-adjusted CPI-W and a 0.30% (-0.30%) drop in earnings (there is a rounding differential) before inflation adjustment. Net of prior-period revisions, the monthly contraction in September real earnings was 0.14% (-0.14%).

The decline in real September earnings was against a revised 0.85% (previously a 0.55%) gain in August and a revised 0.07% (previously a 0.12%) gain in July.

Year-to-year and seasonally-adjusted, September 2014 real average weekly earnings rose by 0.99% versus a revised 1.17% (previously a 0.92%) gain in August. On an unadjusted basis, September real earnings fell year-to-year by 0.39% (-0.39%), versus a 1.17% gain in August. 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 are due to the instabilities in the BLS surveying and compilation of average weekly earnings.

The regular graph of this series is found 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 (Inflation-Adjusted) Money Supply M3—September 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 September 2014 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for September 2014 moved lower, to 2.6% from an unrevised 2.9% in August. The decline in the growth rate reflected primarily a decline in the pace of annual headline M3 growth, from 4.5% in August to 4.2% in September.

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 to the present, with significant new softness in recent reporting. Actual post-2009 economic activity has remained relatively low levels of activity—in protracted stagnation.

Despite a purported surge in second-quarter 2014 GDP activity, 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 (see *Opening Comments*). Reality remains that the economic collapse into 2009 was followed
by a plateau of low-level economic activity—no meaningful upturn, no recovery from or 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 (September 2014)

Up for the Month, Existing-Home Sales Fell Year-to-Year for the Eleventh Straight Month. Despite September 2014 new-home sales rising by 2.4% month-to-month to a high for 2014, annual sales declined once again, for the eleventh month. The September 2014 headline annual sales pace of 5,170,000 (an average monthly pace of 430,833) also remained down by 28.9% (-28.9%) from the June 2005 pre-recession peak in activity.

*September Existing-Home Sales Rose 2.4% to 2014 High, But Fell 1.7% (-1.7%) Year-to-Year.* Tuesday's (October 21st) release of September 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted 2.4% month-to-month gain, following an unrevised 1.8% (-1.8%) monthly decline in August.

On a year-to-year basis, September 2014 annual sales declined by 1.7% (-1.7%), having been down year-to-year by 5.3% (-5.3%) in August 2014. September was the eleventh consecutive month where headline sales were below those of the year before. That is the longest period of annual decline in the existing-home series since before the official end of the recession in June 2009.

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 quality of data remains questionable.

*A Jump in Distressed Sales.* The NAR estimated that the portion of total September sales in "distress" rose to 10% (7% foreclosures, 3% short sales), versus the August reading of 8% of the total (6% foreclosures, 2% short sales). The increase in distressed sales, applied to the seasonally-adjusted numbers, accounted for 86% of the headline monthly sales gain. Not-seasonally-adjusted, monthly aggregate sales fell by 9.2%.

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 September 2014 rose to 24% of the total, up from 23% in August 2014, but down from 33% in September 2013.

*Bleak Outlook Continues, Based on Underlying Consumer Fundamentals.* As most-recently discussed in Commentary No. 665, there has been no improvement in underlying consumer liquidity conditions. Correspondingly, with no fundamental growth in liquidity to fuel increasing consumer activity, there is no basis here for expecting 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. For comparison, a graph also is included of smoothed September housing starts for single-unit construction (see Commentary No. 667). New-home sales detail will be
WEEK AHEAD

Against Overly-Optimistic Expectations, Pending Economic Releases Should Be Much Weaker; Inflation Releases Should Be Increasingly Stronger. Although having shifted some 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 increasingly should be hammered, though, by ongoing, downside corrective revisions and by an accelerating pace of downturn in broad-based headline economic activity.

Longer-Range Reporting Trends. The process of downside shifting in economic-growth expectations has been sporadic, but the underlying fundamentals remain extraordinarily negative. Other than for nonsense-growth in the headline second-quarter GDP (see Commentary No. 662), renewed weakness has been, and increasingly will be seen in the headline reporting of other major economic series (see 2014 Hyperinflation Report—Great Economic Tumble – Second Installment), particularly subsequent to the November 4th election. Indeed, weaker-than-consensus economic reporting should remain the general trend until the unfolding “new” recession receives broad recognition, which minimally would follow the next reporting of a headline contraction in real GDP growth.

A generally stronger consumer inflation trend remains likely to continue, as seen in recent months (August 2014 excepted). 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. Such excludes any near-term efforts to push oil prices lower as an informal financial sanction against Russia.

The dollar faces eventual pummeling from the weakening economy, continuing perceptions of needed, ongoing quantitative easing, 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 prospective, significantly-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:**

**New-Home Sales (September 2014).** The September 2014 new-home sales report from the Census Bureau is due for release tomorrow, Friday, October 24th.

Smoothed for extreme and nonsensical monthly gyrations, a pattern of stagnation or intensifying downturn appears to be in play for the new-home sales series. While monthly changes in activity here rarely are statistically-significant, still-unstable reporting and revisions (both likely to the downside) remain a fair bet for September. Home sales activity, in general, continues to be restricted by severe liquidity constraints on the U.S. consumer (see discussion in Commentary No. 665).

Both the existing-home sales (see today's Opening Comments and Reporting Details sections) and the new-home sales series remain highly unstable, but increasingly they should move to the downside in activity, looking increasingly like the graph of smoothed single-unit housing starts shown in the Opening Comments section.

**New Orders for Durable Goods (September 2014).** Reporting of September 2014 new orders for durable goods is scheduled for Tuesday, October 28th, by the Census Bureau. Reflecting massive, irregular swings in commercial aircraft orders, aggregate orders surged by 22.5% in July and then plunged by an offsetting 18.2% in August. Aircraft orders are long-term—years in advance—so they have limited impact on near-term production. Further, by their nature, they do not lend themselves to meaningful seasonal adjustment.

The durable goods orders series, net of that volatility, has been reasonably stagnant and should remain stagnant-to-down in September reporting, net of any ongoing commercial-aircraft order volatility. Market expectations appear to be for a small decline in orders, well within the normal month-to-month volatility of this series.

**Gross Domestic Product—GDP (Third-Quarter 2014, "Advance" or First Estimate).** The Bureau of Economic Analysis (BEA) will publish its "advance" or first-estimate of third-quarter 2014 GDP on Thursday, October 30th. Following an extremely-overstated, annualized quarterly real headline growth rate of 4.6% for second-quarter GDP, market expectations are for a still heavily-overstated headline 3.0% growth rate in the initial third-quarter estimate. As the last major economic indicator from the federal government before the November 4th midterm election, the initial GDP estimate here will be vulnerable to political considerations.
The prospects for the reporting of third-quarter economic growth are reviewed in the *Opening Comments* section. Given the political timing, and the tendency of the BEA to target its "advance" reporting to consensus expectations, a headline estimate at or somewhat below the near-three-percent consensus could be expected.

The initial growth estimate should be dominated by a positive boost from the net-exports account, which is based only on partial data. Pending trade deficit reporting and revisions (November 4th) could knock down the initial GDP growth estimate sharply, to below two-percent, potentially into negative territory, along with other factors. That circumstance will be discussed in later *Commentaries* covering the respective revised, underlying details.

**Headline GDP Reporting Likely Will Not Be Statistically Meaningful.** In any event, an initial third-quarter GDP estimate of 3.0% or so (+/- 3.5% ninety-five percent confidence interval), would not be statistically significant in the reporting of this most-worthless, most-heavily-gimmicked and massaged government economic indicator.

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