

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

**COMMENTARY NUMBER 673**

**October Retail Sales, Consumer Liquidity, Updated Hyperinflation and Dollar Risks**

**November 14, 2014**

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**October Retail Sales Were Near Consensus, with Minimal Revisions and  
A Sharply-Slowing Pace of Fourth-Quarter 2014 Growth**

**Negative Surprises on the Economy and in the Political Arena  
Are Among Imminent Top Threats to U.S. Dollar**

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*PLEASE NOTE: The next Commentary is planned for Monday, November 17th, covering October industrial production, followed by one on Wednesday the 19th, covering the October PPI and housing starts, and another on Thursday the 20th, covering the October CPI, related real retail sales and earnings, and existing-home sales.*

*Best wishes to all — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Hyperinflation Timing.** Closing in on the end of 2014, the U.S. dollar has strengthened significantly in recent months, instead of being dumped in a panicked sell-off as predicted. Nonetheless, the outlook for a dollar panic remains in place. It could unfold at any time, with little or no warning, and still before year-end. From a practical standpoint, though, where massive dollar selling is the likely immediate precursor to, and trigger of, the early stages of a hyperinflation, the outlook for the timing of hyperinflation—detailed in the *Hyperinflation Reports*—has to be shifted to 2015, from 2014.

I had put 80% odds in favor of the hyperinflation breaking this year, in 2014. Yet, successful covert interventions, and well-orchestrated efforts at propping market perceptions of strong economic activity and at selling the concept of an increasingly prudent Federal Reserve, have supported the dollar and have helped to forestall the looming great financial crisis, beyond what I had anticipated. Other than for the calendar shift, however, the general outlook has not changed, with the ultimate currency panic and financial-market crises highly likely in the very near-term, still virtual certainties in the not-so-distant future (see the *Hyperinflation Watch* section for further detail).

Beyond covering today's (November 14th) nominal retail sales reporting (*Opening Comments* and *Reporting Detail*) and an update of consumer-liquidity indicators (*Opening Comments*), this missive is one of several that will update broad assessments of market, economic and inflation conditions as well as potential actions (or lack of same) open to the federal government and Federal Reserve in terms of addressing the U.S. fiscal, monetary and economic crises. Today, the *Hyperinflation Summary Outlook* has been updated (*Hyperinflation Watch* section) along with a brief discussion here in the *Opening Comments* of some high-risk and potential near-term triggers of massive U.S. dollar selling.

**Negative Economic Surprises and an Increasingly Unstable Political Environment are Particularly High-Risk Areas for Destabilizing the U.S. Dollar.** Underpinning the recent strength in the U.S. dollar have been market perceptions of relative economic strength and monetary stability in the U.S. versus the rest of the world. The same economic problems besetting Japan and Europe also are at play in the United States; the troubling details just have been masked better in headline U.S. reporting and with Wall Street propaganda. The purported U.S. economic strength also has been a significant factor providing credibility to the Federal Reserve's pullback in asset purchases in its QE3 quantitative easing.

Key near-term risks to U.S. dollar stability—likely triggers for heavy dollar selling—include, but are not limited to (see also *Hyperinflation Summary*):

- ***U.S. Near-Term Economic Reporting.*** Reporting in the weeks ahead of October industrial production, housing starts, new orders for durable goods, the trade balance and construction spending, November labor conditions, and the first-revision to third-quarter 2014 GDP, all are at high risk of providing downside surprises to likely market expectations. As reported economic activity weakens and market sentiment shifts towards renewed economic contraction, speculation also should mount for another round of expanded quantitative easing.
- ***Rapid Deterioration in Perceived U.S. Political Stability.*** In the immediate post-election environment, prospects for possible cooperation between what will be a Republican-controlled Congress and a Democrat-controlled White House are not promising. With terms such as "executive action," "impeachment" and "government shutdown" being tossed back and forth, there is potential here for the circumstance to devolve into what could become extraordinarily disruptive financial-market conditions, including massive dollar selling.

**Retail Sales—October 2014—Near-Consensus Headline Gain, in Context of Rapidly Slowing Quarterly Growth.** October 2014 nominal retail sales showed a statistically-insignificant headline gain

of 0.3%, following minimal upside revisions to August and September detail. Market consensus had been for about a 0.2% headline gain (Bloomberg). There was no meaningful revision suggested for third-quarter GDP 2014 reporting from the new sales detail, but the initial monthly reporting for fourth-quarter 2014 retail sales indicated sharply slowing growth. Combined with increasingly-negative prospects for the dominant holiday-shopping season months of November and December, such would be consistent with an outright real (inflation-adjusted) quarterly contraction for fourth-quarter retail sales, with a likely parallel movement in fourth-quarter GDP.

***Nominal (Not-Adjusted-for-Inflation) Retail Sales.*** The latest headline retail-sales detail was in the context of upside revisions to August and September 2014 activity. Not adjusted for consumer inflation, headline monthly growth was a statistically-insignificant, seasonally-adjusted monthly gain of 0.34%. That was a monthly gain of 0.41%, before prior-period revisions. September sales were revised to reflect a statistically-significant decline of 0.26% (-0.26%), versus a revised 0.60% gain in August.

***Annual Change.*** Year-to-year sales growth slowed minimally to a statistically-significant 4.14% in October 2014, versus a revised 4.39% annual gain September, and a revised 5.05% gain in August. The October 2014 annual change reflected an upside revision to the prior-year level of activity, while the September 2014 annual growth was boosted by a downside revision to the September 2013 number.

Those year-ago revisions are simply junk-reporting out of the concurrent seasonal-adjustment process, which leaves headline data non-comparable with all the other historical data, shifting seasonally-adjusted headline activity between months, by stealth. Generally, the near-term, headline reporting in retail sales is of negligible reliability when first published, but the nominal data become increasingly reliable over several years of revisions and annual retail census surveys (see *Reporting Instabilities and Distortions* in the *Reporting Detail* section).

***Pattern of Slowing Nominal Quarterly Growth.*** Based solely on the initial reporting of October retail sales, the suggested annualized quarterly growth rate for fourth-quarter versus third-quarter 2014 nominal retail sales is 1.46%, the slowest pace of growth since 0.84% in first-quarter 2014, which also showed a quarterly contraction in real terms (inflation-adjusted). October sales represent a significant slowing in activity, if the pattern should continue. Anecdotal evidence already is suggesting a much-worse-than-anticipated holiday-shopping season for retailers, where retail activity in November and December dominates the year.

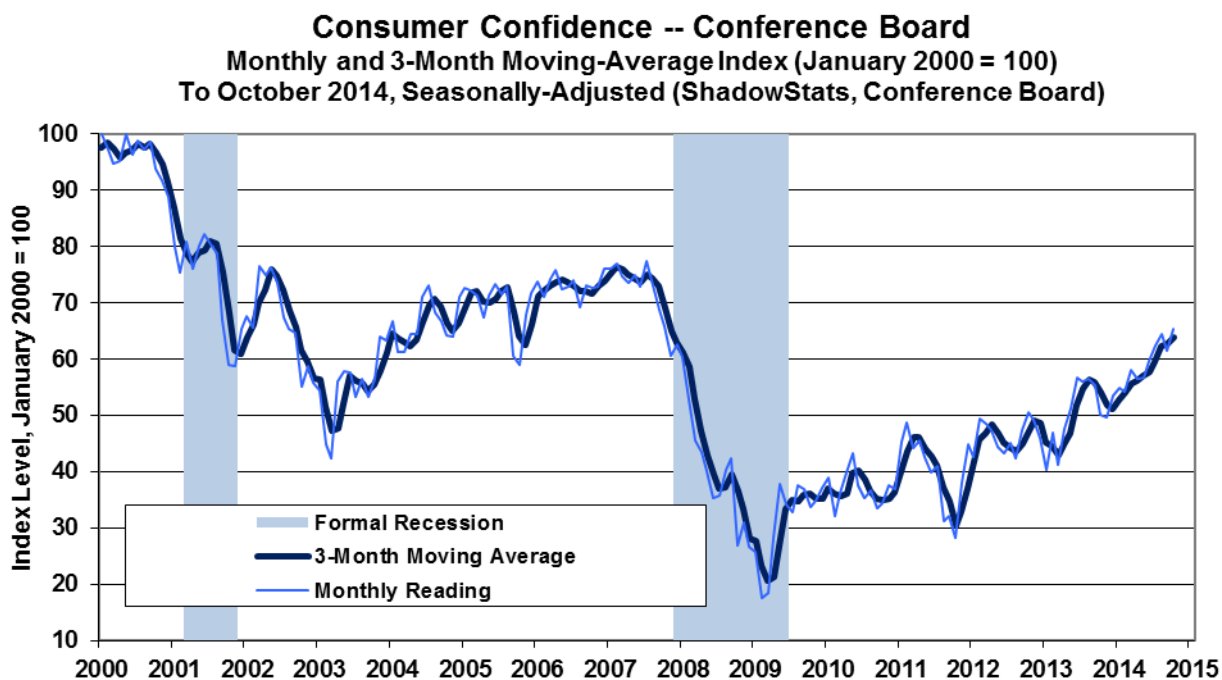
On a quarter-to-quarter basis, the minor revisions to August and September 2014 upped the annualized pace of third-quarter versus second-quarter growth minimally from 3.91% to 4.01%, versus second-quarter annualized growth of 9.72%. Again, the minimal aggregate revision there was without consequence to the pending November 25th first-revision to third-quarter 2014 GDP.

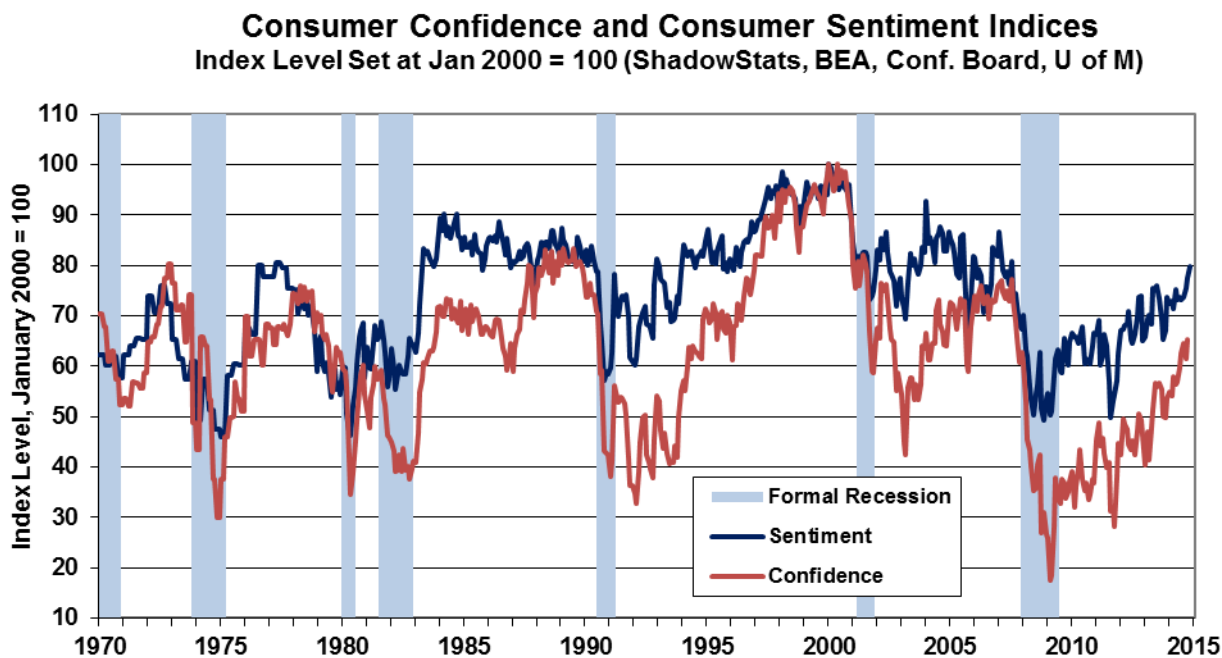
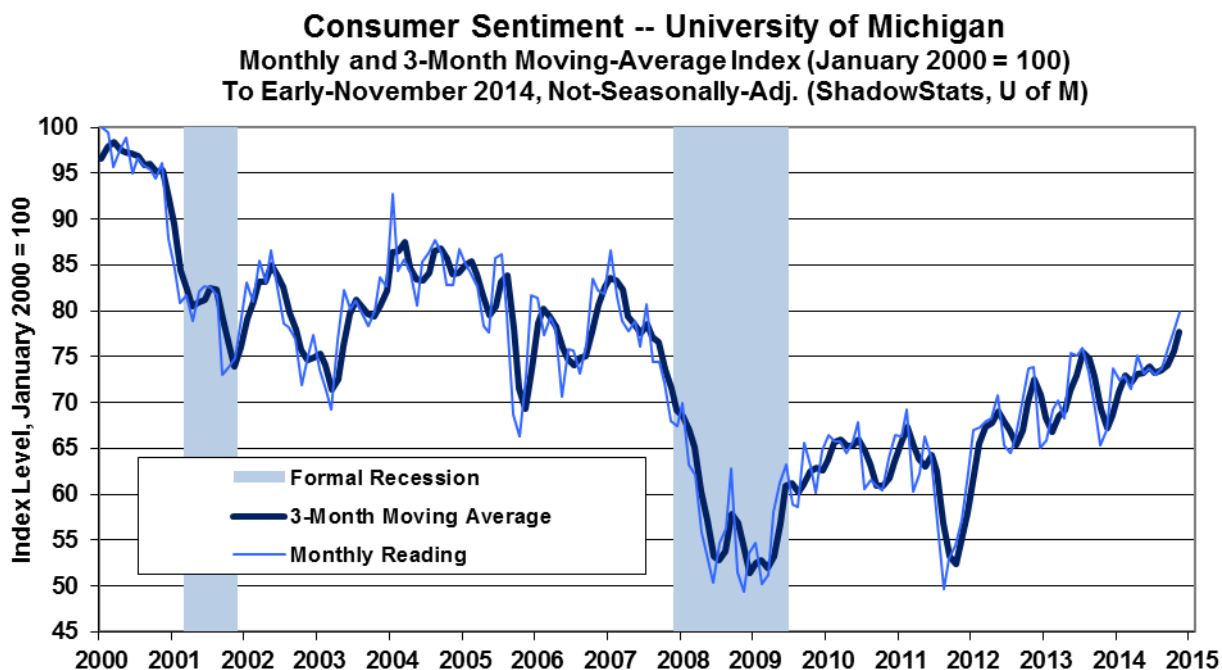
***Real (Inflation-Adjusted) Retail Sales—October 2014.*** The headline 0.34% October 2014 retail sales gain was before accounting for inflation. Real retail sales growth for October (net of inflation), will be reported along with the headline estimate of consumer inflation, the October 2014 CPI-U, in the November 20th *Commentary No. 676*. October headline inflation should be around 0.1%, enough to dampen, in real terms, this morning's headline nominal growth rate, but likely not enough to turn the headline real monthly retail sales change into a contraction (see *Week Ahead* section).

**Constrained Consumer Liquidity Restrains Retail Sales.** Discussed often in these *Commentaries* and updated here, the primary structural issue preventing meaningful, domestic U.S. economic growth remains impaired consumer liquidity. Without real growth in income, and without the ability and/or willingness to offset declining purchasing power with debt expansion, the consumer lacks the ability to fuel traditional, consumption-based growth or recovery in U.S. economic activity, including not only retail sales, but also residential investment and related construction spending.

The first two graphs following show detail through October 2014 reading for the Conference Board's Consumer seasonally-adjusted Confidence Index, and through the early-November reading for the University of Michigan's not-seasonally-adjusted Consumer Sentiment Index. Although confidence and sentiment both have risen in recent months, the series remain at levels typically seen in recessions. As shown in the third graph following, the latest readings of both confidence and sentiment still have not recovered levels that preceded any of the formal recessions of the last 40 years, and they generally remain well below or inconsistent with periods of historically-strong economic growth that would rival recent headline GDP gains.

There has been no economic recovery here, contrary to the full recovery and new and continuing economic expansion in headline GDP activity that purportedly followed the plunge in economic activity into 2009. Instead, as indicated in these and other consumer-related measures, reality remains that the economic plunge into 2009, has been followed by a period of prolonged, low-level stagnation, albeit with some uptrend in activity, but no recovery. The economic data suggest a renewed downturn is underway.





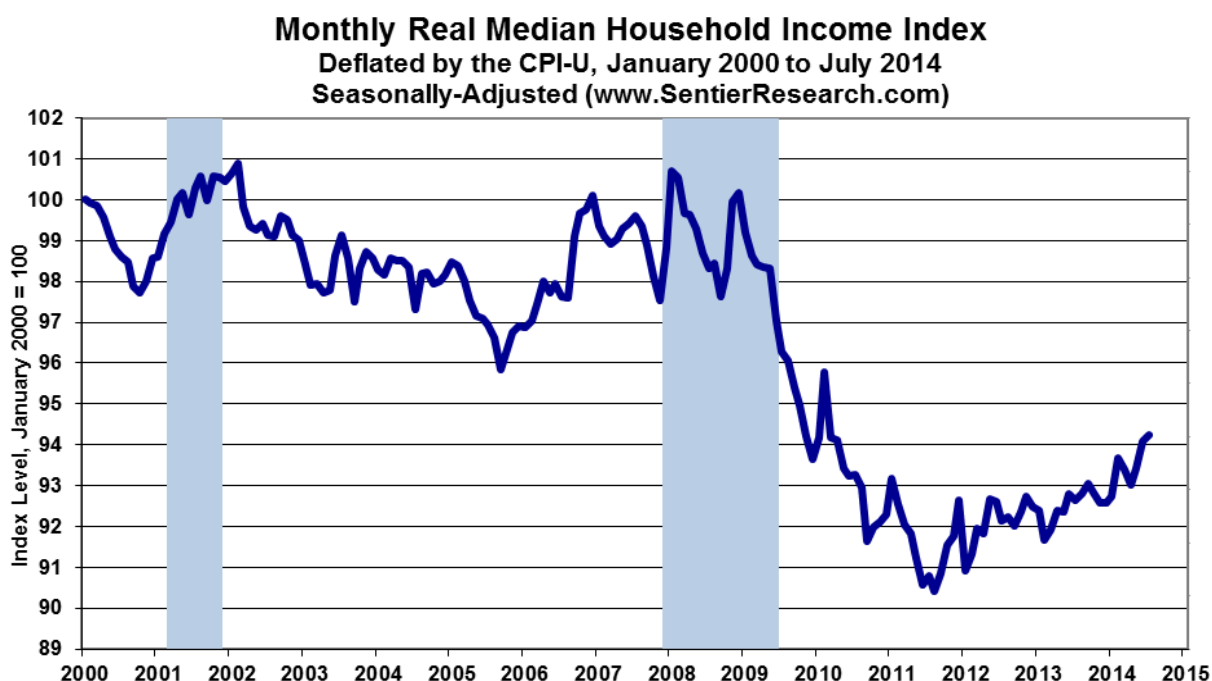
The next two graphs show monthly real median household income through July 2014, as reported by [www.SentierResearch.com](http://www.SentierResearch.com), and the September 2014 detail for the Federal Reserve's series on consumer credit outstanding.

Real median household income showed continued income stagnation through July 2014. When headline GDP purportedly started its solid economic recovery in mid-2009, household income plunged to new lows. Deflated by headline CPI-U, the same series, published by the Census Bureau on an annual basis ([Commentary No. 658](#)), showed further that 2013 annual real median household income held at a low level of activity, at levels that also had been seen in the late-1960s and early-1970s.

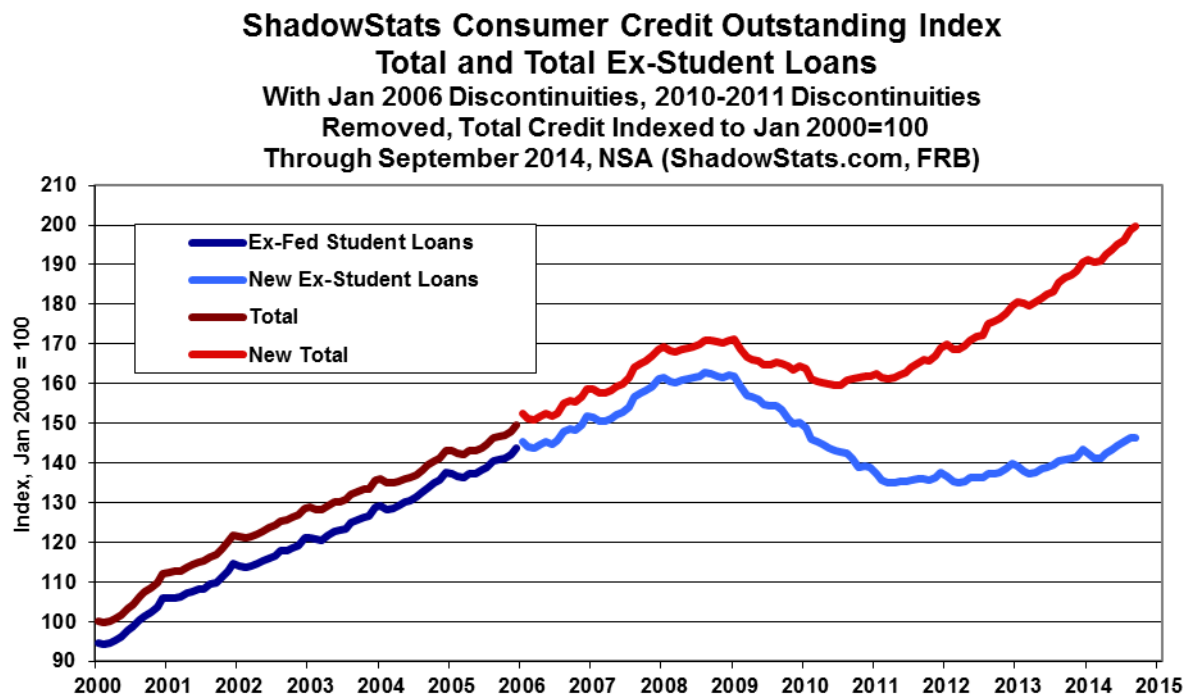
Sentier Research prepares its data from what otherwise is unpublished monthly detail available from the Census Bureau. A change in Census Bureau sampling has affected the current reporting of that detail, creating issues for Sentier, as indicated by this note on the Sentier site:

"Future releases of monthly income trends reports are pending our analysis of the effects of changes in the Current Population Survey sample design that result from the introduction of information derived from the 2010 Decennial Census." Further detail is provided [here](#), and ShadowStats will keep you posted as to developments.

Growth in consumer credit, post-2008 Panic, has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption growth. The upside notch in September 2014 student-loan activity reflected the regular seasonal jump at the beginning of the school year, while the subsequent October activity flattened out. These disaggregated data are available only on a not-seasonally-adjusted basis and are so plotted.







*[See the Reporting Detail section for greater retail sales detail. Various drill-down and graphics options on the headline data are available to subscribers at our affiliate: [www.ExpliStats.com](http://www.ExpliStats.com)].*

## HYPERINFLATION WATCH

**Hyperinflation Outlook Summary.** A fully updated version of the hyperinflation outlook follows (the basic outlook and story have not changed, other than for the shift of the hyperinflation forecast into 2015, from the soon-to-pass 2014). The prior version of the *Summary* is found in [Commentary No. 671](#). Beginning with today's *Commentary*, and continuing with *No. 676*, planned for November 20th, Shadowstats will update broad assessments of market, economic and inflation conditions as well as potential actions open (or not open) to the federal government in terms of addressing the U.S. fiscal and economic crises. The detail provided here is in the context of today's (November 14th) *Opening Comments*.

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. The outlooks also are updated in regular *Commentaries*, such as [Commentary No. 661](#), [Commentary No. 664](#), and [Commentary No. 672](#). The two 2014 *Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts.

**Revised Hyperinflation Timing.** Discussed in today's *Opening Comments*, as 2014 draws to a close, the U.S. dollar has strengthened significantly in recent months, instead of being dumped in a panicked sell-off as had been predicted for 2014. Nonetheless, the outlook for the dollar panic remains in place. It could be triggered or otherwise just start, at any time, with little or no warning, and still before year-end.

From a practical standpoint, though, where a dollar-selling panic will be the likely immediate precursor to and trigger of the early stages of a hyperinflation, the outlook for the timing of the hyperinflation as detailed in the *Hyperinflation Reports* is shifted to 2015, from 2014. I had put 80% odds in favor of the hyperinflation breaking this year, in 2014. Other than for the calendar shift, the general outlook has not changed, with the ultimate currency panic and financial crises still highly likely in the very near-term (80%), virtual certainties (95% in the not-so-distant future, *i.e.*, the year ahead).

**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 (see [Commentary No. 672](#)). 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 2014-2015 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 sections summarize 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. Further, a sharp deterioration in near-term domestic U.S. political stability appears to be developing and is of meaningful near-term risk for triggering heavy selling of the dollar.

**Current Economic Issues versus Underlying U.S. Dollar Fundamentals.** U.S. economic activity is turning down anew, despite gimmicked GDP reporting. The headline contraction in first-quarter 2014 GDP was the reality; the headline second-quarter GDP boom was the aberration. The headline third-quarter growth of 3.5% appears to have been spiked by overly-optimistic trade-deficit and inventory



numbers, which already face downside revisions. Such should become increasingly and painfully obvious to the financial markets in the domestic economic reporting and accompanying revisions of the weeks and months ahead, as well as early indications for an outright contraction in fourth-quarter 2014 GDP.

Recent 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 [Commentary No. 668](#), real business activity—net of all the happy assumptions and modeling used by the Bureau of Economic Analysis in putting together the overstated third-quarter GDP growth estimate—has been flat-to-minus, with real sales of the S&P 500 showing a decline in third-quarter 2014 activity. Further, Main Street U.S.A. remains the ultimate judge of actual economic activity, and the 2014 election results and related exit polling confirmed no post-Panic economic recovery (see [Commentary No. 672](#)).

Despite short-term pre-election fluff, those basic underlying and increasingly-negative economic conditions should show with mounting frequency in various series, such as the trade deficit, retail sales, industrial production, payroll employment and inventories, 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 negatively roiling the extraordinarily unstable financial markets.

As financial-market expectations shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, particularly deteriorating domestic political conditions, 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 finally has run its course. Future, constructive Federal Reserve behavior—purportedly moving towards normal monetary conditions in the currently unfolding, perfect economic environment—is pre-conditioned by a continued flow of "happy" economic news. Suggestions that all is right again with world are nonsense. The 2008 Panic never has been resolved, and the Fed soon will find that it has no easy escape from its quantitative easing.

The economy has not recovered; the banking system is far from stable and solvent; and the Federal Reserve and the federal government still have no way out. Significant banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs will be provided, as needed, by the Fed, under the ongoing political cover of a weakening economy—a renewed, deepening contraction in business activity. The Fed has no choice. Systemic collapse is not an option for the Board of Governors. This circumstance simply does not have a happy solution.

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 only a prop to the increasingly unstable equity markets (see [Commentary No. 663](#)).

In the event of QE4, any resulting renewed boost to U.S. equities 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 (see [Commentary No. 672](#)).

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 widening trade deficit (an initial improvement reported for the third-quarter 2014 trade balance should prove to be transitory, with a negative first revision already in place), 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 (see *Opening Comments*). Sharply-negative economic reporting shocks, versus unrealistically-positive consensus forecasts, remain a heavily-favored, proximal trigger for the pending dollar debacle.
- ***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. The impact of the shift in control of Congress will be assessed in the weeks ahead, but the change does not appear likely to alter the systemic willingness to address the underlying fundamental issues, specifically to bring the GAAP-based deficit into balance. 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. The history and issues here are explored in the first installment of the *Hyperinflation Report*, as previously linked; the initial fiscal-2014 details are discussed in [Commentary No. 672](#).
- ***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 end of the Federal Reserve's formal asset purchases, the U.S. central bank monetized 78% of the U.S. Treasury's fiscal-2014 cash-based deficit, as discussed in [Commentary No. 672](#). The quantitative easing QE3 asset purchase program effectively monetized 66% of the total net issuance of federal debt to be held by the public during the productive life of the program (beginning with the January 2013 expansion of QE3). The monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury. With highly tenuous liquidity conditions for the banking system and the Treasury, it would not be surprising in this period of increasing instability to see covert Federal Reserve activities masked in

the purchases of Treasury debt by nations or other entities financially friendly to or dependent upon the United States.

- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, usually 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. The positive rating for the President is at an historic low, post-election. Early post-election activity indicates rapidly disintegrating chances of any shift towards constructive cooperation between the White House and the new Congress in addressing fundamental issues such as non-recovered, faltering economic activity and the consumer liquidity crisis, and addressing the nation's long-range solvency issues, let alone addressing contentious issues such as immigration. Conditions here could devolve rapidly into an extreme political crisis.
- ***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 ongoing 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 continue to expand. In particular, anti-dollar rhetoric and actions 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.

## REPORTING DETAIL

### RETAIL SALES (October 2014)

**Near-Consensus Headline Gain in Context of Rapidly Slowing Quarterly Growth.** Published a week in advance of the government's headline report on October consumer inflation and the estimate of real (inflation-adjusted) retail sales, October 2014 nominal retail sales showed a statistically-insignificant headline gain of 0.3%, following minimal upside revisions to August and September detail. Market consensus had been about 0.2% (Bloomberg).

With the headline October detail, there was no meaningful revision suggested for third-quarter GDP 2014 reporting, but the initial monthly reporting for fourth-quarter GDP indicated sharply slowing retail sales growth. That, combined with increasingly-negative prospects for the dominant holiday-shopping months of November and December, would be consistent with an outright real (inflation-adjusted) quarterly contraction for fourth-quarter retail sales, with parallel movement likely in fourth-quarter GDP.

**Nominal (Not-Adjusted-for-Inflation) Retail Sales—October 2014.** The latest headline retail-sales detail was in the context of upside revisions to August and September 2014 activity. Not adjusted for consumer inflation, today's (November 14th) report on October 2014 retail sales—issued by the Census Bureau—indicated a statistically-insignificant, seasonally-adjusted, headline monthly gain of 0.34% +/- 0.58% (this and all other confidence intervals are expressed at the 95% level), and a monthly gain of 0.41% before prior-period revisions. September sales were revised to reflect a statistically-significant decline of 0.26% (-0.26%) +/- 0.23%, which initially had been a contraction of 0.32% (-0.32%), versus a revised 0.60% (previously 0.59%, initially 0.58%) gain in August.

**Annual Change.** Year-to-year sales growth slowed minimally to a statistically-significant 4.14% +/- 0.82% in October 2014, versus a revised 4.39% (previously 4.31%) annual gain September, and a revised 5.05% (previously 5.04%, initially) gain in August. The October 2014 annual change reflected an upside revision to the prior-year level of activity, while the September 2014 annual growth was boosted by a downside revision to the September 2013 number.

Those year-ago revisions are simply junk-reporting out of the concurrent seasonal-adjustment process, which leaves headline data non-comparable with all the other historical data, shifting seasonally-adjusted headline activity between months, by stealth (see *Reporting Instabilities and Distortions*). Generally, the near-term, headline reporting in retail sales is of negligible reliability when first published, but the nominal data become increasingly reliable over several years of revisions and annual retail census surveys.

**Pattern of Slowing Nominal Quarterly Growth.** Based solely on the initial reporting of October retail sales, the suggested annualized quarterly growth rate for fourth-quarter versus third-quarter 2014 nominal retail sales is 1.46%, the slowest pace of growth since 0.84% in first-quarter 2014, which also showed a

quarterly contraction in real terms. October sales represent a significant slowing in activity, if the pattern should continue. Anecdotal evidence already is suggesting a much-worse-than-anticipated Holiday shopping season for retailers, where retail activity in November and December dominates the year.

On a quarter-to-quarter basis, the minor revisions to August and September 2014 upped the annualized pace of third-quarter versus second-quarter growth minimally from 3.91% to 4.01%, versus second-quarter annualized growth of 9.72%. The minimal aggregate revision there was without consequence to the pending November 25th first-revision to third-quarter 2014 GDP.

***October Core Retail Sales—Still-Tumbling Gasoline Prices.*** In an environment of generally rising food prices, and with an unadjusted 6.57% (-6.57%) decline in monthly gasoline prices, seasonally-adjusted monthly grocery-store sales rose by 0.25% in October, with gasoline-station sales down by a surprisingly-tame 1.49% (-1.49%). Under normal conditions, the bulk of non-seasonal variability in food and gasoline sales is in pricing, instead of demand. “Core” retail sales—consistent with the Federal Reserve’s preference for ignoring food and energy prices when “core” inflation is lower than full inflation—are estimated using two approaches:

Version I: October 2014 versus September 2014 seasonally-adjusted retail sales series—net of total grocery store and gasoline station sales—reflected a monthly increase of 0.58%, versus the official headline gain of 0.34%.

Version II: October 2014 versus September 2014 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—reflected a 0.46% monthly increase, versus the official 0.34% gain.

***Real (Inflation-Adjusted) Retail Sales—October 2014.*** Again, the headline 0.34% October 2014 retail sales gain was before accounting for inflation. Real retail sales growth for October (net of inflation), will be reported along with the headline estimate of consumer inflation, the October 2014 CPI-U, in the November 20th *Commentary No. 676*. October headline inflation should be around 0.1%, enough to dampen, in real terms, this morning's headline nominal growth rate, but likely not enough to turn the headline real monthly retail sales change into a contraction (see *Week Ahead* section).

***Liquidity Constraints Impair Consumer Economic Activity.*** As discussed frequently and updated in the *Opening Comments*, during the last six-plus years of economic collapse and stagnation, activity in consumer buying of goods and services has been constrained by the intense, structural-liquidity woes besetting the consumer. Without real, or inflation-adjusted, growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply does not have the ability to sustain real growth in retail sales or in the personal-consumption activity that dominates the headline change in GDP.

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

As has been a common pattern, the year-ago numbers for September and October were revised, along with the publication of the October 2014 data and revised detail on August and September 2014. The



September and October 2013 revisions were due only to the changed seasonal adjustments, not due to the availability of new historical data lower. Where all other seasonally-adjusted historical numbers also were revised, though, those details were not published. Only the new details for September and October 2013 were provided for the earlier numbers. Specifically, the downside revision to September 2013 sales and the upside revision to October 2013 sales followed a common pattern that suggested changes to the headline seasonal-adjustment factors for September and October 2014 that would have enhanced the headline month-to-month change, seasonally shifting some activity into the headline month from some unspecified prior period.

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

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

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## WEEK AHEAD

**Against Overly-Optimistic Expectations, Pending Economic Releases and Revisions Should Trend Much Weaker; Inflation Releases Should Be Increasingly Stronger.** Shifting some to the downside, again, from the upside, amidst wide fluctuations in the numbers, market expectations for business activity still are overly optimistic in the extreme. They exceed any potential, underlying economic reality. Continuing, downside corrective revisions and an accelerating pace of downturn in broad-based headline economic reporting, increasingly should hammer those expectations.

**Longer-Range Reporting Trends.** While gradual process of downside shifting in economic-growth expectations has been sporadic, underlying fundamental activity has remained extraordinarily negative. Other than for nonsense-growth in the headline second-quarter GDP (see [Commentary No. 662](#)), and the overstated initial third-quarter GDP growth estimate, renewed weakness has been, and increasingly will be seen in the post-election headline reporting of other major economic series (see [2014 Hyperinflation](#)



[Report—Great Economic Tumble – Second Installment](#)). Indeed, weaker-than-consensus economic reporting should become 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 (very possibly a culmination of pending downside revisions to the headline third-quarter 2014 GDP estimate).

A generally stronger consumer inflation trend remains likely, as seen before August, although headline inflation is muted at present by a temporary decline in oil prices. 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, covert financial sanctions against Russia that are pushing oil prices lower.

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). Combined with recent allegations (see [Commentary No. 669](#)) of Census Bureau falsification of data in its monthly Current Population Survey (the source for the Bureau of Labor Statistics' Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

## ***PENDING RELEASES:***

**Index of Industrial Production (October 2014).** On Monday, November 17th, the Federal Reserve Board will release its estimate of the October 2014 index of industrial production. October production has a solid chance of surprising already-soft consensus-growth estimates on the downside.

Risks of such a surprise, including an outright October monthly contraction, likely would be in the context of downside revisions to prior reporting, with ongoing implied downside adjustments to inventory building.

**Producer Price Index—PPI (October 2014).** The October 2014 PPI is scheduled for release on Tuesday, November 18th by the Bureau of Labor Statistics (BLS). Detail, however, will be covered in *Commentary No. 675* of Wednesday, November 19th. Consensus expectations for a minimal decline in October wholesale prices is reasonable.

The energy sector, once again, should be the dominant downside component in the headline monthly data. Inflation in food, “core” goods (everything but food and energy), and some still spreading inflationary impact from hard-goods into the soft-services sector, all are likely to be mitigating factors, again.

Based on the two most widely followed oil contracts, not-seasonally-adjusted, monthly-average oil prices fell by 9.9% (-9.9%), for the month of October, along with a 6.6% (-6.6%) monthly drop in average retail-gasoline prices. PPI seasonal adjustments for energy costs in September should offset the headline unadjusted decline in energy-related prices only partially.

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

The services series, in theory, is much-less dependent on the increasingly “antiquated” concepts of oil, food and “core” (ex-food and energy) inflation of the “hard” production-based economy. Yet, services costs recently had reflected spreading, general inflationary pressures—and shrinking profit margins—from rising prices in that hard economy, although that could will abate some in October, reflecting the lower energy costs. Accordingly, the aggregate headline October PPI inflation most likely will show a minimal headline monthly decline, generally in line with early-consensus expectations.

**Residential Construction—Housing Starts (October 2014).** The Census Bureau plans the release of October 2014 residential construction detail, including housing starts, on Wednesday, November 19th.

As discussed in [Commentary No. 660](#) on the August version of this most-unstable of monthly economic series, the headline reporting here simply is worthless. Not only is month-to-month reporting volatility extreme, but also the headline monthly growth rates rarely come close to being statistically significant. Consensus expectations appear to be for a near-unchanged showing in October, not for what usually would be expected as a monthly surge. Market expectations appear to be shifting towards a renewed decline in residential construction activity.

The extreme variability seen regularly in the reporting of month-to-month change in this series likely will continue, though with a pattern of no statistical-significance, with ongoing stagnation and renewed downturn and/or downside revisions seen in the six-month moving-average of the series. This series also is subject to regular and 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. As discussed frequently in these *Commentaries*, 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, as updated in the *Opening Comments* section.

**Consumer Price Index—CPI (October 2014).** The October 2014 CPI is scheduled for release on Thursday, November 20th, by the Bureau of Labor Statistics (BLS). The headline CPI-U has a reasonable chance of showing a minimal inflation gain, against early market expectations for an unchanged number.

Average gasoline prices plunged month-to-month in October 2014 by 6.6% (-6.6%), on a not-seasonally-adjusted basis, per the Department of Energy (DOE). While BLS seasonal adjustments to gasoline prices should be positive in October, they still should leave adjusted monthly gasoline prices down by about 3.3% (-3.3%) or so for the month. By itself, such an adjusted decline in gasoline prices would leave the headline CPI-U down by 0.1% (-0.1%) to 0.2% (-0.2%).

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

**Annual Inflation Rate.** Year-to-year, CPI-U inflation would increase or decrease in 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%. If the headline monthly inflation came in at about 0.1%, the resulting annual inflation pace would be 1.7% or 1.8%, depending on rounding.

**Existing- and New-Home Sales (October 2014).** October 2014 existing-home sales are due for release on Thursday, November 20th, from the National Association of Realtors, with the October 2014 new-home sales report due from the Census Bureau the next week, on Wednesday, November 26th.

Despite a headline monthly gain in September, recent negative trends in headline monthly reporting likely continued in October existing-home sales, and such would be consistent with market expectations. A headline monthly contraction in excess of 0.7% (-0.7%), would generate the twelfth straight month of year-to-year decline, with the trailing twelve-month average sales level down by more than 4.0% (-4.0%) from the year before. Continued faltering activity in both home-sales series remains closely tied to persistent consumer liquidity problems (see the *Opening Comments* section).

Smoothed for extreme and nonsensical monthly gyrations, a pattern of stagnation or intensifying downturn also appears to be in play for new-home sales. While monthly changes in activity rarely are statistically-significant here, still-unstable reporting and revisions (both likely to the downside) remain a fair bet for October new-home sales, with both home-sales series increasingly reflecting downside instabilities in their respective headline activity.

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