

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

**COMMENTARY NUMBER 683**  
**November CPI, Real Retail Sales and Earnings**  
**December 17, 2014**

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**November Annual Inflation: 1.3% (CPI-U), 1.1% (CPI-W), 9.0% (ShadowStats)**

**Using Exaggerated Drop in Gasoline Prices, BLS Generated Headline CPI-U  
Monthly Decline of 0.3% (-0.3%), Instead of 0.2% (-0.2%)**

**Real Retail Sales Growth Was Distorted Heavily by Inconsistent Handling of  
Seasonal Adjustments for Gasoline Prices and Sales by BLS and Census Bureau**

**If Recent Retail Sales and CPI Reporting Are to Be Believed,  
Consumers Have Used the Bulk of Gasoline-Price Savings to Buy More Gasoline**

**Up for the Month, General Pattern of Headline Real Earnings Remained Stagnant**

**Unusual Economic Reporting in Week Ahead**

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*PLEASE NOTE: The next Regular Commentary is planned for Tuesday, December 23rd, covering the final revision to third-quarter GDP, November durable goods orders and new- and existing-home sales.*

*SPECIAL COMMENTARY: A year-end Special Commentary is planned for Monday, December 29th, reviewing the developments of the year past and previewing likely developments of the year ahead.*

*Best wishes to all for a most joyous Holiday Season! — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Annual CPI-U Inflation Dropped to 1.3% in November, but Tumbling Oil and Gasoline Prices Should Be Transitory Phenomena.** Selling pressure on oil has continued—largely unabated since June 2014—tied to what still appears to be U.S.-orchestrated efforts to place Russia under increasing financial stress. The broad effects of this circumstance are mixed, however, both in terms of domestic and global inflation and economic activity, as will be reviewed in the *Special Commentary*.

Of near-term benefit to U.S. consumer liquidity, in theory, has been the decline in gasoline prices, which are down in CPI reporting by a seasonally-adjusted 14.3% (-14.3%) since June 2014. Nonetheless, related headline detail in terms of gasoline sales in retail sales (Census Bureau) and gasoline prices in CPI (Bureau of Labor Statistics) have led to warped reporting, an overstatement of growth in real (inflation-adjusted) retail sales. That reporting also may have provided some indication as to the depths of the consumer-liquidity woes, discussed in the *Real Retail Sales* section of these *Opening Comments*, as well as in the *Reporting Detail* section.

As we go to press, the financial markets remain highly unstable and vulnerable to unexpected shocks and extraordinary crosscurrents. U.S.-dollar strength and oil-price weakness continue but should prove to be unusually ephemeral in the next several months. This also will be explored in the *Special Commentary*.

**Today's Missive (December 17th).** This *Commentary* concentrates on the headline reporting of the November 2014 consumer price index, and related inflation-adjusted series such as real retail sales and earnings, both in these *Opening Comments* and in the *Reporting Detail* section.

The *Hyperinflation Watch* includes the updated gold graphs that regularly accompany the CPI *Commentaries*, but the *Hyperinflation Summary* is unchanged.

The *Week Ahead* section previews reporting of a possible upside GDP revision, a likely, extraordinary surge in November durable goods orders (due entirely to unprecedented levels of long-term commercial-aircraft orders) and likely tepid November new- and existing-home sales.

Updated reviews of current economic activity will follow in the December 23rd *Regular Commentary*, encompassing the second revision to third-quarter GDP, and in the December 29th *Special Commentary*, reviewing developments of the year past and previewing likely developments of the year ahead.

**Consumer Price Index (CPI)—November 2014—Oil Prices Pushed Annual Inflation to Ten-Month Low.** As oil and gasoline prices bottom out, headline inflation will start turning higher again, particularly in the event of a major downturn in the U.S. dollar. Such a circumstance remains likely in the months ahead. Upside movement in oil prices, as well as downside movement in the dollar's exchange rate can be rapid and sharp, with little or no warning. ShadowStats will discuss such circumstances as they unfold.

**CPI-U.** The headline, seasonally-adjusted CPI-U for November 2014 declined month-to-month by 0.3% (-0.3%), down by 0.26% (-0.26%) at the second decimal point, versus a headline "unchanged" reading at the second decimal point for October. On a not-seasonally-adjusted basis, the November CPI-U fell by 0.54% (-0.54%) month-to-month, following an unadjusted decline of 0.25% (-0.25%) in October.

Not seasonally adjusted, November 2014 year-to-year inflation for the CPI-U was a gain of 1.3% (1.32%) at the second decimal point, versus 1.7% (1.66% at the second decimal point) in October. The headline November annual inflation was the lowest since February of this year.

**CPI-W.** November 2014 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, fell by 0.41% (-0.41%) in November [fell by an unadjusted 0.72% (-0.72%)], after declining by 0.08% (-0.08%) in October [fell by an unadjusted 0.40% (-0.40%)]. Unadjusted, November 2014 year-to-year CPI-W inflation was 1.06%, versus 1.52% in October 2014.

**Chained-CPI-U.** Initial reporting of unadjusted year-to-year inflation for the November 2014 C-CPI-U was 1.02%, versus 1.46% in October.

**Alternate Consumer Inflation Measures.** The ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—annual inflation was roughly 4.9% in November 2014, versus 5.2% in October. The November 2014 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 9.0% year-to-year, versus 9.4% in October.

**Real (Inflation-Adjusted) Retail Sales—November 2014—Spiked/Skewed by Reporting Inconsistencies between Two Statistical Bureaus.** If one is to believe the October and November headline retail sales and inflation numbers, U.S. consumers are taking the bulk of their recent savings on gasoline purchases and buying more gasoline. That is nonsense, but it is the warped story being generated by inconsistent seasonal adjustments in the Census Bureau's handling of gasoline-station sales and the Bureau of Labor Statistics' (BLS) handling of gasoline prices.

Indeed, lower gasoline prices have reduced out-of-pocket spending on gasoline, giving consumers an effective boost in disposable income. Yet, consumers still are suffering extreme liquidity constraints (see [Commentary No. 680](#)), intensified recently by the previously rising gasoline costs. Already cash-strapped, consumers apparently are paying down their bills a little faster, more than they are increasing their physical consumption of other goods and services. Unfortunately for consumers, though, low oil and gasoline prices should prove to be short-lived.

In nominal terms, before adjustment for inflation, headline monthly retail sales rose by a headline 0.72% in November 2014, having increased by a revised 0.53% (previously 0.34%) in October 2014 (also related to gasoline seasonal-adjustment issues), as reported by the Census Bureau and discussed in [Commentary No. 680](#). Also discussed in *No. 680*, the headline reporting of a minimal 0.8% (-0.8%) monthly decline in seasonally-adjusted November retail gasoline sales was not consistent with what was shaping up as a sharp decline in seasonally-adjusted gasoline prices of 5.5% (-5.5%) in the CPI-U. That estimate was based on the BLS using numbers close to the gasoline-price detail from Department of Energy (DOE) surveying. Instead, the BLS used an even steeper, seasonally-adjusted decline in November gasoline prices of 6.6% (-6.6%). With the greater decline in adjusted gasoline prices, the inconsistency between

the Census and BLS adjustments now fully account for the headline November 2014 gain in nominal retail sales, suggesting, instead, an actual month-to-month unchanged level of nominal retail sales.

On that basis, November 2014 real retail sales (adjusted for inflation) gained roughly 0.3%, using today's headline CPI-U reporting, instead of what will be shown officially as a 1.0% gain. The headline real retail sales series is published by the St. Louis Federal Reserve, which adjusts headline nominal retail sales as published by the Census Bureau, for headline CPI-U inflation as published by the BLS. There is no reason to expect Census Bureau and the BLS seasonal-adjustments to be consistent, particularly under circumstances of extreme volatility in gasoline prices. When the seasonals are not consistent, however, real retail sales results can be skewed, as they are at present. Where these differences appear to be primarily in the seasonal adjustments, headline detail of the real retail series should be self-correcting and balance out in the reporting and revisions of the next four months.

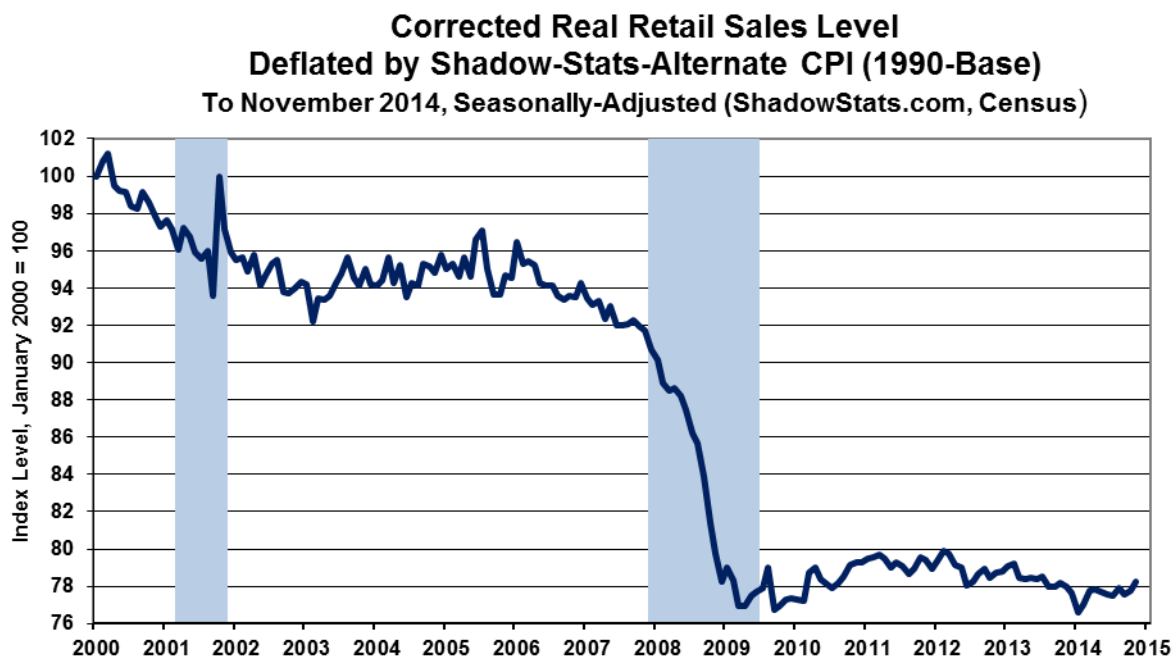
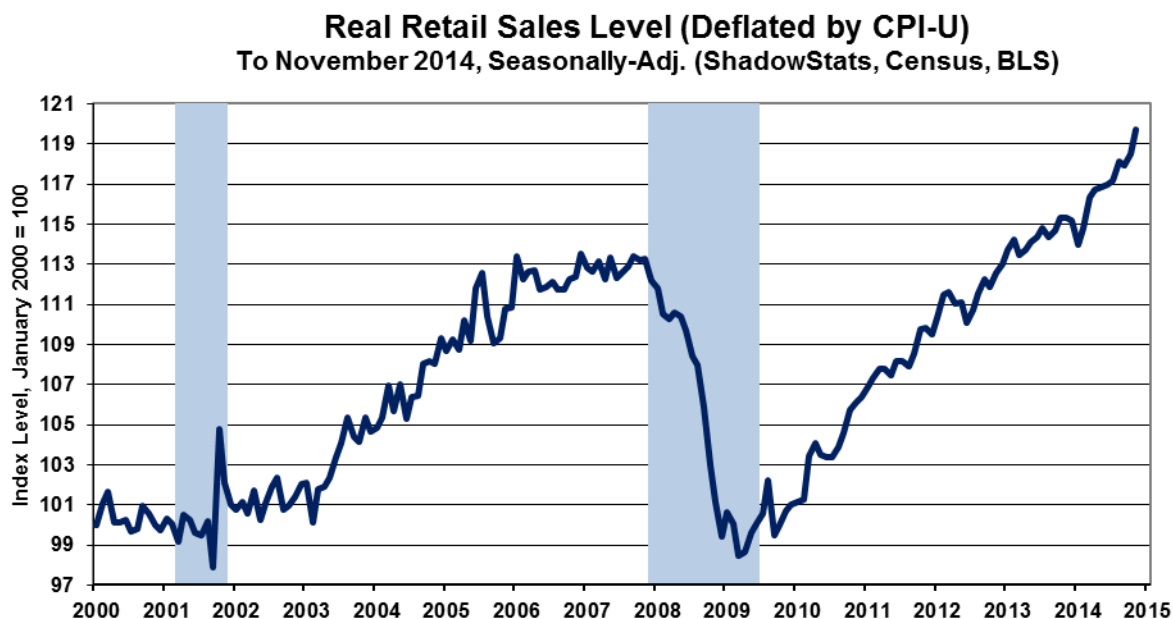
***Official Headline Reporting of Real Retail Sales.*** Based on the 0.26% (-0.26%) headline decline in November 2014 CPI-U inflation, and in the context of "unchanged" (a 0.004% gain at the third decimal point) headline October 2014 CPI-U, seasonally-adjusted real monthly retail sales rose by 0.98% in November, following a revised gain of 0.50% in October.

With all distortions in place, if the headline real October and November 2014 reporting held for the full fourth-quarter 2014, that would suggest annualized quarterly real growth in retail sales of 4.70%. That would be up from a revised 3.14% third-quarter gain, but below an unrevised 6.49% second-quarter gain, and versus an annualized real contraction of 1.06% (-1.06%) in first-quarter 2014. Adjusted just for the distortions in headline November reporting, implied fourth-quarter growth would have been about 3.3%

Year-to-year change in November 2014 real retail sales also spiked, with annual growth of 3.80%, versus a revised 2.82% in October, 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; a signal that still is in play and that likely will serve as an indicator of renewed downturn in broad economic activity.

***Corrected Real Retail Sales—November 2014.*** 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. Even as distorted though, the headline series appears to be stalling. 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 (including industrial production, new orders for durable goods and GDP). 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 the series is indexed or expressed 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 consumer indicators like real median household income, the consumer confidence measures and in the unemployment and most housing statistics. A

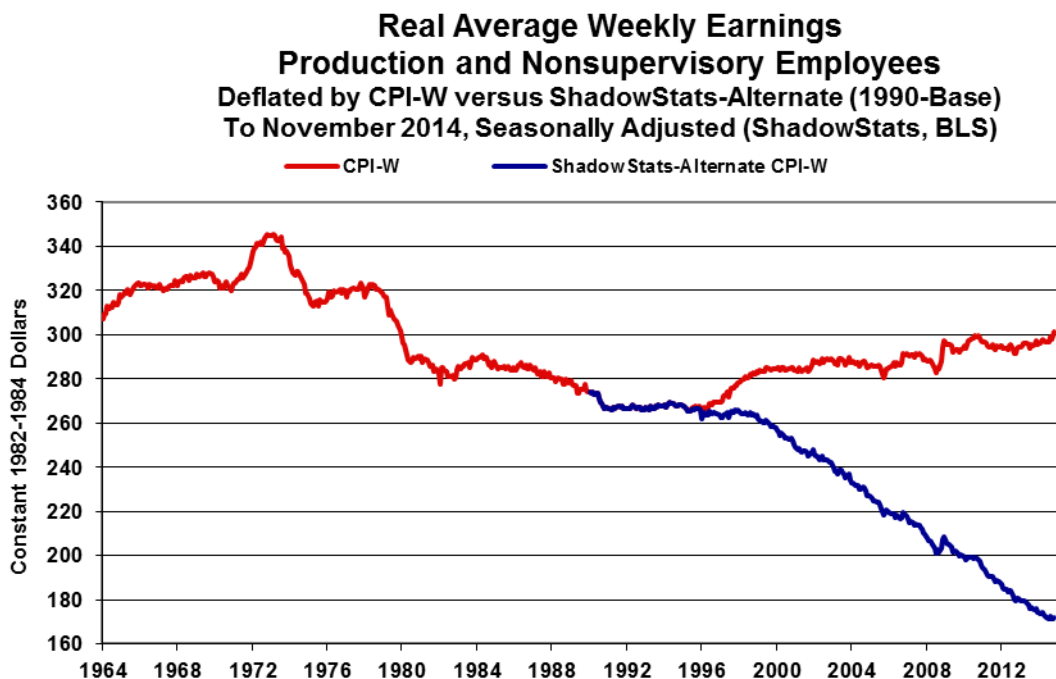
topping out in late-2011 and early-2012 reverted to renewed decline in second-quarter 2012 in this series, which had been bottom-bouncing along a low-level plateau of economic activity since the economic collapse from 2006 into 2009. The renewed contraction has trended, so far, into 2014, allowing for the occasional and temporary upside blip, as seen in November 2014.

***Real (Inflation-Adjusted) Average Weekly Earnings—November 2014—Rose by 0.60% for the Month.***

Real average real average weekly earnings for the month of November 2014 (deflated by CPI-W) rose by 0.6%, spiked some by an overestimation of the monthly headline decline in gasoline prices, as discussed earlier. On a seasonally-adjusted basis, headline monthly CPI-W declined by 0.41% (-0.41%) in November, following a headline decline of 0.08% (-0.8%) in October.

In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings, rose by 0.60%, reflecting a 0.19% gain in nominal earnings and the headline decline of 0.41% (-0.41%) in inflation. That was against a revised 0.52% real earnings gain in October.

Year-to-year and seasonally-adjusted, November 2014 real average weekly earnings rose by 1.45%, versus an unrevised 1.31% annual gain in October. 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 average weekly earnings.



In the preceding graph of this series, the earnings as officially deflated by the BLS are shown with the red-line, and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base, with the 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.

*[For further detail on the November CPI and related series, see the Reporting Detail section. Various drill-down and graphics options on headline CPI data, also are available to ShadowStats subscribers at our affiliate: [www.ExpliStats.com](http://www.ExpliStats.com)].*

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## HYPERINFLATION WATCH

**Hyperinflation Outlook Summary.** Except for minor language changes tied to updating reference links, this *Summary* has not been changed from the version updated in the November 25th [Commentary No. 677](#), which incorporated details from the second estimate of third-quarter 2014 GDP. Nonetheless, the *Summary* should be considered in the context of the *Opening Comments* on the U.S. dollar found in [Commentary No. 680](#). This *Summary* will be updated subsequent to the December 29th *Special Commentary*.

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](#), and the *Opening Comments* of [Commentary No. 673](#) should be considered in terms of near-term, proximal triggers for massive dollar selling. The two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts.

**Hyperinflation Timing Shifted to 2015.** Discussed in the *Opening Comments* of [Commentary No. 673](#), 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 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* has been 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 was 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 earlier). 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 overstated growth in recent GDP reporting. The headline contraction in first-quarter 2014 GDP was the reality; the headline second-quarter GDP boom and continued strong headline GDP growth in third-quarter 2014 were not. The more-recent data appear to have been spiked, at best, by overly-optimistic assumptions on the part of the Bureau of Economic Analysis (BEA). At worst, the bloated growth estimates reflect heavy political massaging. Where third-quarter GDP still may see some near-term downside revision, both second- and third-quarter 2014 GDP growth patterns should suffer heavy downside revisions in the July 30, 2015 benchmark revision. The weak, underlying economic reality should become increasingly and painfully obvious to the financial markets in the domestic economic reporting and accompanying data revisions of the weeks and months ahead, including early indications for an outright contraction in fourth-quarter 2014 GDP.

As expanded upon in the *Opening Comments* of [Commentary No. 677](#), 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, discussed in [Commentary No. 668](#), actual 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 (see trade deficit analysis in [Commentary No. 679](#)), 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 the *Opening Comments* of [Commentary No. 678](#)). 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 continues to show disintegrating chances of a 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 the contentious immigration circumstance. Conditions here still could devolve rapidly into an extreme political crisis (see *Opening Comments* of [Commentary No. 673](#))

- ***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.

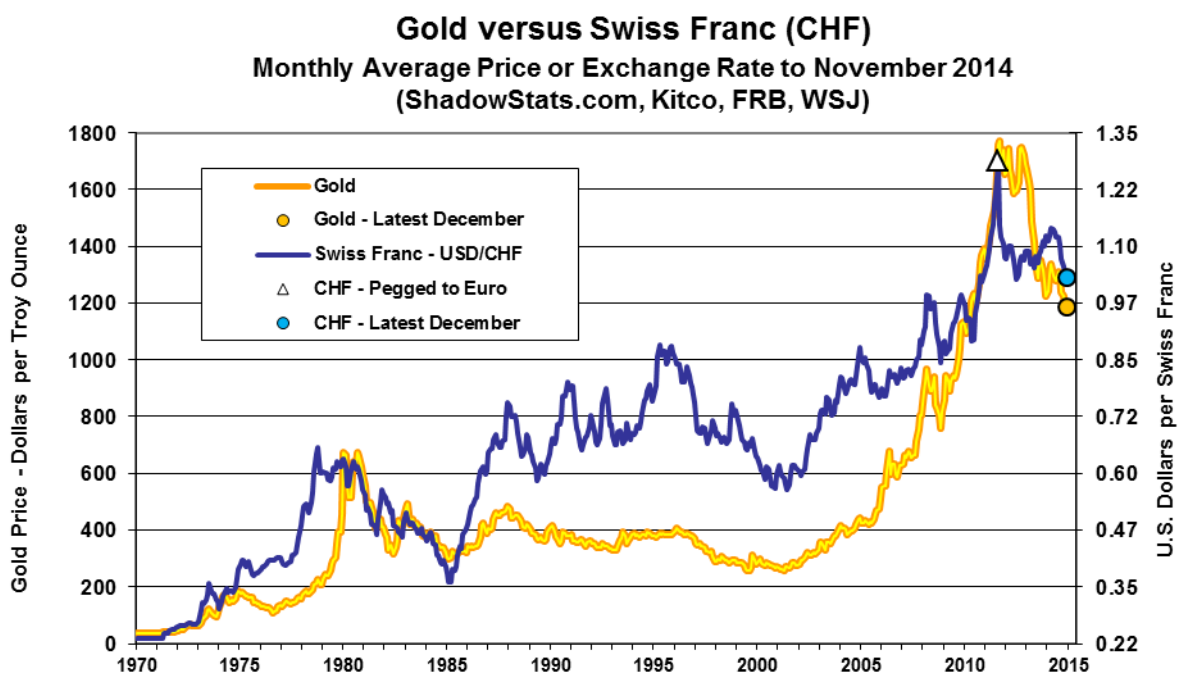
**Monthly Gold Graphs.** The following three graphs are the traditional gold graphs that accompany the *CPI Commentaries*, updated through today (December 17th), reflecting volatile, post-FOMC, late-afternoon New York prices at the "Latest December" point. At such time as the U.S. dollar begins to sell-off sharply, offsetting sharp rallies likely will be seen on coincident basis for gold and silver prices, as well as for oil prices.

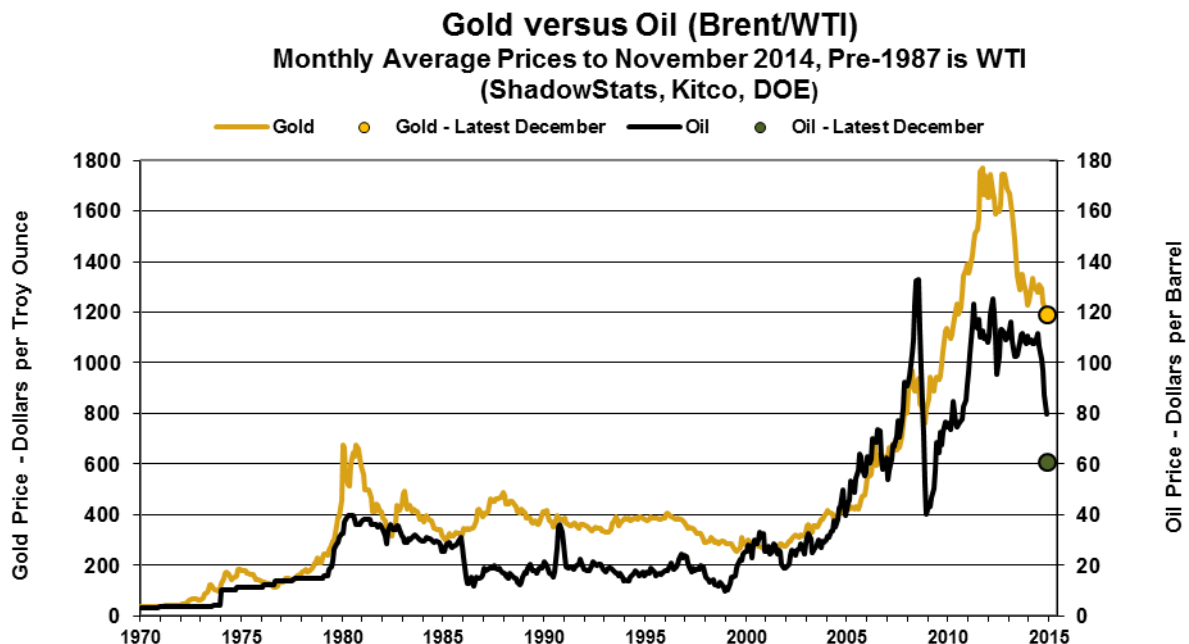
***Dollar Strength Distorts the Financial Markets.*** Previously discussed in [Commentary No. 880](#), strength in the exchange-rate value of the U.S. dollar against other major Western currencies remains the primary distorting element, at present, in various financial markets. The stronger U.S. currency has been a primary depressant for oil prices, which have continued to decline. Also at play with falling oil prices is an apparent covert effort by the United States in creating financial stress and pressure on Russia. The stronger dollar also has been a primary depressant of, or otherwise has reflected shifts of underlying sentiment for, gold and silver prices, which currently are off their bottom levels of November.

Relative fundamentals supporting the dollar and the current circumstance range from popular market perceptions of a strong U.S. economy and a Federal Reserve in stable control of its system, to improving U.S. fiscal conditions.

Unchanged from the discussion in *No. 880*, though, each of those positive perceptions, viewed relative to major U.S. trading partners, is terribly flawed and should not outlive first-quarter 2015. Systemic shocks and negative surprises lie ahead, as headline underlying U.S. economic reporting turns lower, and any faux "good" behavior by the Fed or federal government evaporates along with the illusion of a relative economic boom.

Other elements ranging from low interest rates and a widening trade deficit, to a nonfunctioning federal government and increasingly dangerous and unstable global political conditions should join in a confluence of negative factors, along with degraded economic and related federal-government and central-bank behavior, to drive the U.S. dollar into oblivion.





## REPORTING DETAIL

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

**Annual CPI-U Inflation Dropped to 1.3% in November, but Tumbling Oil and Gasoline Prices Should Be Transitory Phenomena.** Discussed in the *Opening Comments*, selling pressure on oil has continued—largely unabated since June 2014—tied to what still appears to be U.S.-orchestrated efforts to place Russia under increasing financial stress.

Of benefit here to U.S. consumer liquidity conditions, in theory, have been falling gasoline prices, down by a seasonally-adjusted 14.3% (-14.3%) since June 2014. The reduced gasoline prices have lowered aggregate CPI-U inflation by about 0.7% (0.7%) from what it would have been otherwise. Nonetheless, related headline detail in terms of gasoline sales in retail sales (Census Bureau) and gasoline prices in CPI (Bureau of Labor Statistics) have led to warped reporting, overstating growth in real (inflation-adjusted) retail sales. The reporting may have provided some confirmation as to the depths of the consumer liquidity problems, as discussed in the *Real Retail* sales section here, and again in the *Opening Comments* section.

Financial markets remain highly unstable and vulnerable to unexpected shocks and extraordinary crosscurrents. U.S. dollar strength and oil-price weakness should prove to be unusually ephemeral in the next several months.

**Government Inflation Numbers Standardly Are Well Shy of Reality.** That said, 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 (see the *Hyperinflation Watch* section for further details).

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### ***Notes on Different Measures of the Consumer Price Index***

*The Consumer Price Index (CPI) is the broadest inflation measure published by the U.S. Government, through the Bureau of Labor Statistics (BLS), Department of Labor:*

*The **CPI-U (Consumer Price Index for All Urban Consumers)** is the monthly headline inflation number (seasonally adjusted) and is the broadest in its coverage, representing the buying patterns of all urban consumers. Its standard measure is not seasonally-adjusted, and it never is revised on that basis except for outright errors.*

*The **CPI-W (CPI for Urban Wage Earners and Clerical Workers)** covers the more-narrow universe of urban wage earners and clerical workers and is used in determining cost of living adjustments in government programs such as Social Security. Otherwise, its background is the same as the CPI-U.*

*The **C-CPI-U (Chain-Weighted CPI-U)** is an experimental measure, where the weighting of components is fully substitution based. It generally shows lower annual inflation rate than the CPI-U and CPI-W. The latter two measures once had fixed weightings—so as to measure the cost of living of maintaining a constant standard of living—but now are quasi-substitution-based. Since it is fully substitution based, the series tends to reflect lower inflation than the other CPI measures. Accordingly, the C-CPI-U is the "new inflation" measure being proffered by Congress and the White House as a tool for reducing Social Security cost-of-living adjustments by stealth. Moving to accommodate the Congress, the BLS announced pending changes to the C-CPI-U estimation and reporting process on October 22, 2014, which are described in [Commentary No. 668](#).*

*The **ShadowStats Alternative CPI-U Measures** are attempts at adjusting reported CPI-U inflation for the impact of methodological change of recent decades designed to move the concept of the CPI away from being a measure of the cost of living needed to maintain a constant standard of living. There are two measures, where the first is based on reporting methodologies in place as of 1980, and the second is based on reporting methodologies in place as of 1990.*

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**CPI-U.** The Bureau of Labor Statistics (BLS) reported this morning, December 17th, that headline, seasonally-adjusted CPI-U for November 2014 declined month-to-month by 0.3% (-0.3%), down by 0.26% (-0.26%) at the second decimal point, versus a headline "unchanged" reading at the second decimal point for October. On a not-seasonally-adjusted basis, the November CPI-U fell by 0.54% (-0.54%) month-to-month, following an unadjusted decline of 0.25% (-0.25%) in October.

**Monthly Gasoline Prices.** The BLS used an 8.9% (-8.9%) headline monthly decline in not-seasonally-adjusted gasoline prices for November 2014, where a 7.9% (-7.9%) decline was indicated by the more-comprehensive, industry-based surveying of the Department of Energy. Generally in line with the prior-year's seasonal-adjustments to gasoline prices, the unadjusted 8.9% (-8.9%) price drop ended up as a seasonally-adjusted monthly decline of 6.6% (-6.6%) for November. Had the DOE estimate been used, the headline November CPI-U would have been down month-to-month by 0.2% (-0.2%), instead of by the headline 0.3% (-0.3%).

**Major CPI Groups.** Encompassed by the seasonally-adjusted decline of 0.26% (-0.26%) in November 2014 CPI-U [down by an unadjusted 0.54% (-0.54%)], aggregate November energy inflation was down for the month by an adjusted 3.78% (-3.78%) [down by an unadjusted 5.50% (-5.50%)]. In the other major CPI sectors, adjusted food inflation was up by 0.26% for the month [up by 0.05% unadjusted], while "core" inflation was up by 0.07% [down by 0.07% (-0.07%) unadjusted]. Core inflation also showed unadjusted year-to-year inflation of 1.70% in November 2014, versus 1.81% in October 2014.

**Year-to-Year CPI-U.** Not seasonally adjusted, November 2014 year-to-year inflation for the CPI-U was a gain of 1.3% (1.32%) at the second decimal point, versus 1.7% (1.66% at the second decimal point) in October.

Year-to-year, CPI-U inflation would increase or decrease in next month's December 2014 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.24% monthly inflation reported for December 2013. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for December 2014, the difference in December's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the November 2014 annual inflation rate of 1.32%.

**CPI-W.** The November 2014 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, fell by 0.41% (-0.41%) in November [fell by an unadjusted 0.72% (-0.72%)], after declining by 0.08% (-0.08%) in October [fell by an unadjusted 0.40% (-0.40%)].

**Year-to-Year CPI-W.** Unadjusted, November 2014 year-to-year CPI-W inflation was 1.06%, versus 1.52% in October 2014.

**Chained-CPI-U.** Initial reporting of unadjusted year-to-year inflation for the November 2014 C-CPI-U was 1.02%, versus 1.46% in October. See the discussion in the *Opening Comments* of [Commentary No. 668](#) on the October 22nd BLS announcement of the 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.** Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—annual inflation was roughly 4.9% in November 2014, versus 5.2% in October. The November 2014 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 9.0% (9.02% for those using the second decimal point), versus 9.4% in October.

*[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 Historic High Prices Adjusted for November 2014 CPI-U/ShadowStats Inflation—***

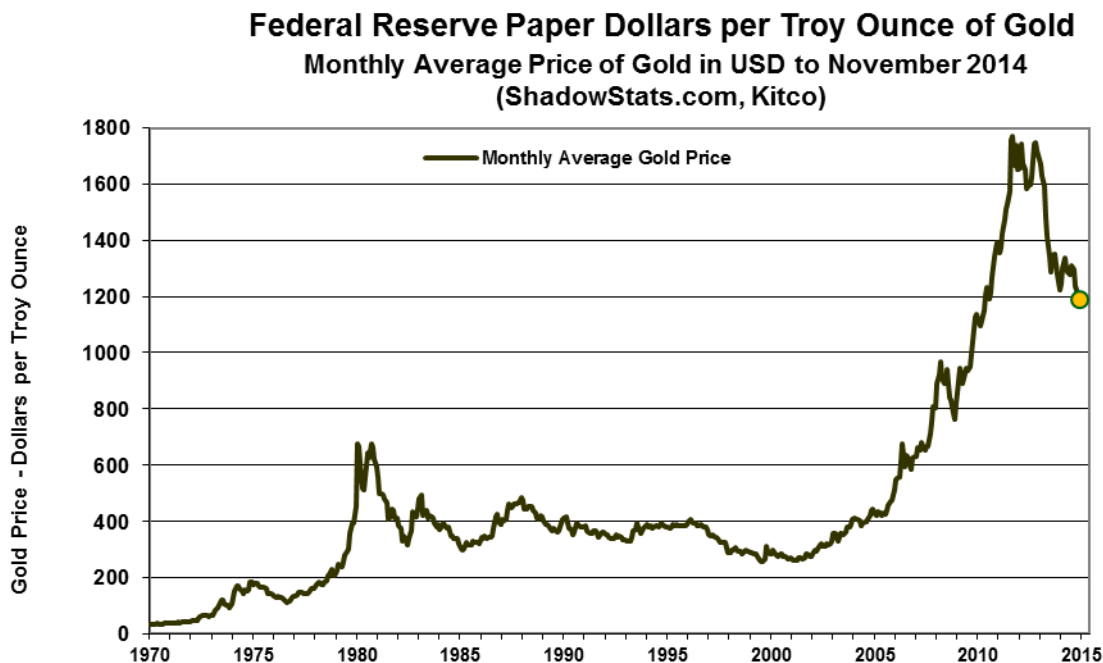
***CPI-U: GOLD at \$2,581 per Troy Ounce, SILVER at \$150 per Troy Ounce***

***ShadowStats: GOLD at \$11,294 per Troy Ounce, SILVER at \$657 per Troy Ounce***

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 \$2,581 per troy ounce, based on November 2014 CPI-U-adjusted dollars, and \$11,294 per troy ounce, based on November 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 November 2014 CPI-U inflation, the 1980 silver-price peak would be \$150 per troy ounce and would be \$657 per troy ounce in terms of November 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. They also 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—November 2014—Spiked/Skewed by Reporting Inconsistencies between Two Statistical Bureaus.*** If one is to believe the October and November headline retail sales and inflation numbers, U.S. consumers are taking the bulk of their recent savings on gasoline purchases and buying more gasoline. That is nonsense, but it is the warped story being generated by inconsistent seasonal adjustments in the Census Bureau's handling of gasoline-station sales and the Bureau of Labor Statistics' (BLS) handling of gasoline prices.

Indeed, lower gasoline prices have reduced out-of-pocket spending on gasoline, giving consumers an effective boost in disposable income. Yet, consumers still are suffering extreme liquidity constraints (see [Commentary No. 680](#)), intensified recently by rising gasoline costs. Already cash-strapped, consumers apparently are paying down their bills a little faster, more than they are increasing their physical consumption of other goods and services. Unfortunately for consumers, though, low oil and gasoline prices should prove to be short-lived.

In nominal terms, before adjustment for inflation, headline monthly retail sales rose by a headline 0.72% in November 2014, having increased by a revised 0.53% (previously 0.34%) in October 2014 (also related to gasoline seasonal-adjustment issues), as reported by the Census Bureau and discussed in [Commentary No. 680](#). Also discussed in *No. 680*, the headline reporting of a minimal 0.8% (-0.8%) monthly decline in seasonally-adjusted November retail gasoline sales was not consistent with what was shaping up as a sharp decline in seasonally-adjusted gasoline prices of 5.5% (-5.5%) in the CPI-U. That estimate was based on the BLS using numbers close to the gasoline-price detail from Department of Energy (DOE) surveying. Instead, the BLS used an even steeper, seasonally-adjusted decline in November gasoline prices of 6.6% (-6.6%). With the greater decline in adjusted gasoline prices, the inconsistency between

the Census and BLS adjustments now fully account for the headline gain in nominal retail sales, suggesting an actual month-to-month unchanged level of nominal retail sales in November 2014.

On that basis, November 2014 real retail sales (adjusted for inflation) gained roughly 0.3%, using today's headline CPI-U reporting, instead of what will be shown officially as a 1.0% gain. The headline real retail sales series is published by the St. Louis Federal Reserve, which adjusts headline nominal retail sales as published by the Census Bureau, for headline CPI-U inflation as published by the BLS. There is no reason to expect Census Bureau and the BLS seasonal-adjustments to be consistent, particularly under circumstances of extreme volatility in gasoline prices. When the seasonals are not consistent, however, real retail sales results can be skewed, as they are at present. Where these differences appear to be primarily in the seasonal adjustments, headline detail of the real retail series should be self-correcting and balance out in the reporting and revisions of the next four months.

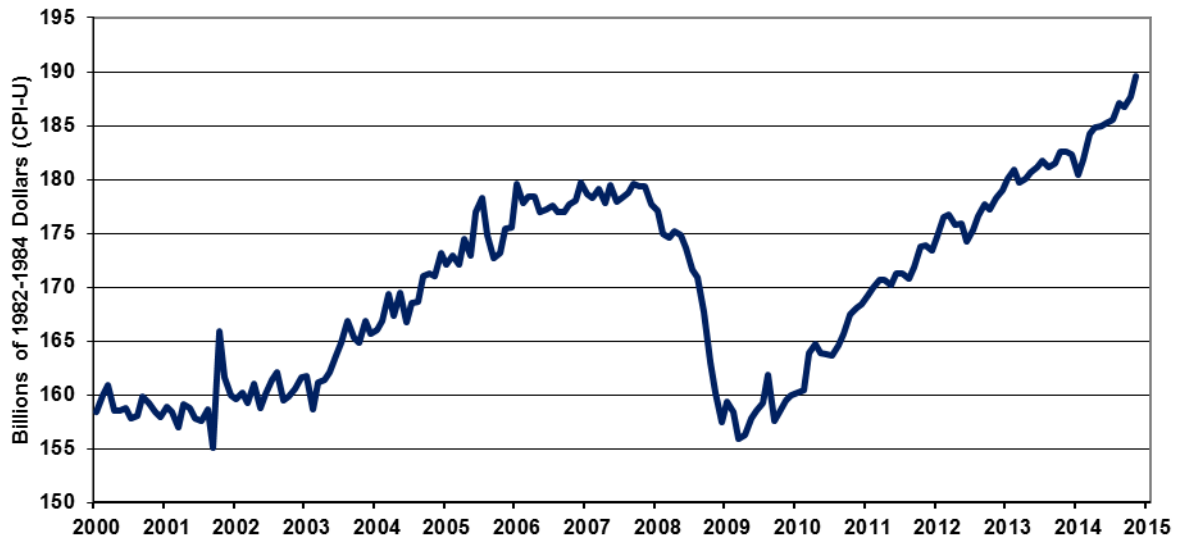
**Official Headline Reporting of Real Retail Sales.** Based on today's (December 17th) reporting of a 0.26% (-0.26%) headline decline in November 2014 CPI-U inflation, and in the context of "unchanged" (0.004% gain at the third decimal point) headline October 2014 CPI-U, seasonally-adjusted real monthly retail sales rose by 0.98% in November, following a revised gain of 0.50% (previously 0.33%) in October.

With all distortions in place, if the headline October and November 2014 reporting held for the full fourth-quarter 2014, that would suggest annualized quarterly real growth in retail sales of 4.70% (October by itself in initial reporting had suggested 1.48%). That would be up from a revised 3.14% (previously 2.88%) third-quarter gain, but below an unrevised 6.49% second-quarter gain, and versus an annualized real contraction of 1.06% (-1.06%) in first-quarter 2014. Adjusted for the distortions in just the headline November reporting, implied fourth-quarter growth would have been about 3.3%

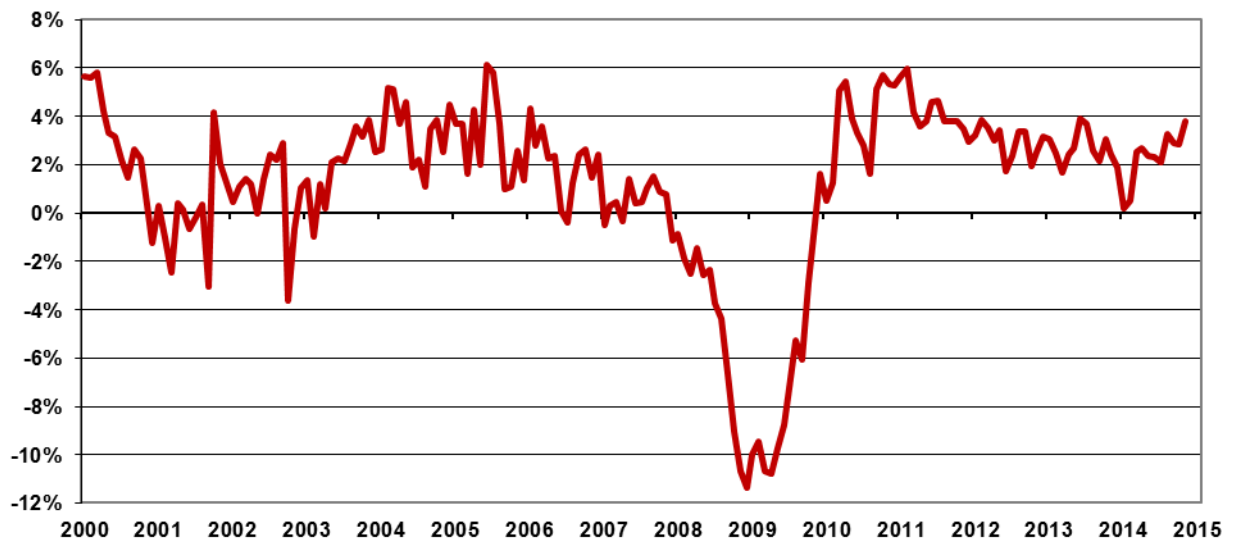
Year-to-year change in November 2014 real retail sales also spiked, with annual growth of 3.80%, versus a revised 2.82% (previously 2.45%) in October, as shown in the second and fourth graphs following. In normal economic times, annual real growth at or below 2.0% would signal an imminent recession. That signal had been given recently; a signal that still is in play and 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 higher in the latest headline reporting. Year-to-year activity, which had plunged to a near-standstill in January and February 2014, has bounced back irregularly, hitting its level for 2014 in November 2014. 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.

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

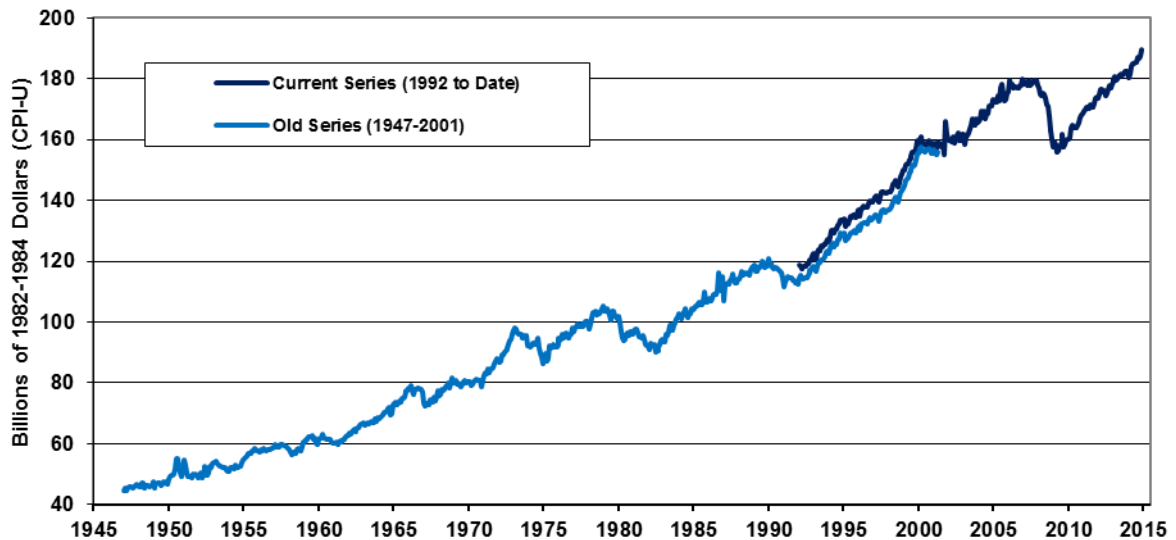


**Real Retail Sales Year-to-Year % Change**  
To November 2014, Seasonally-Adj. (ShadowStats, Census, BLS)

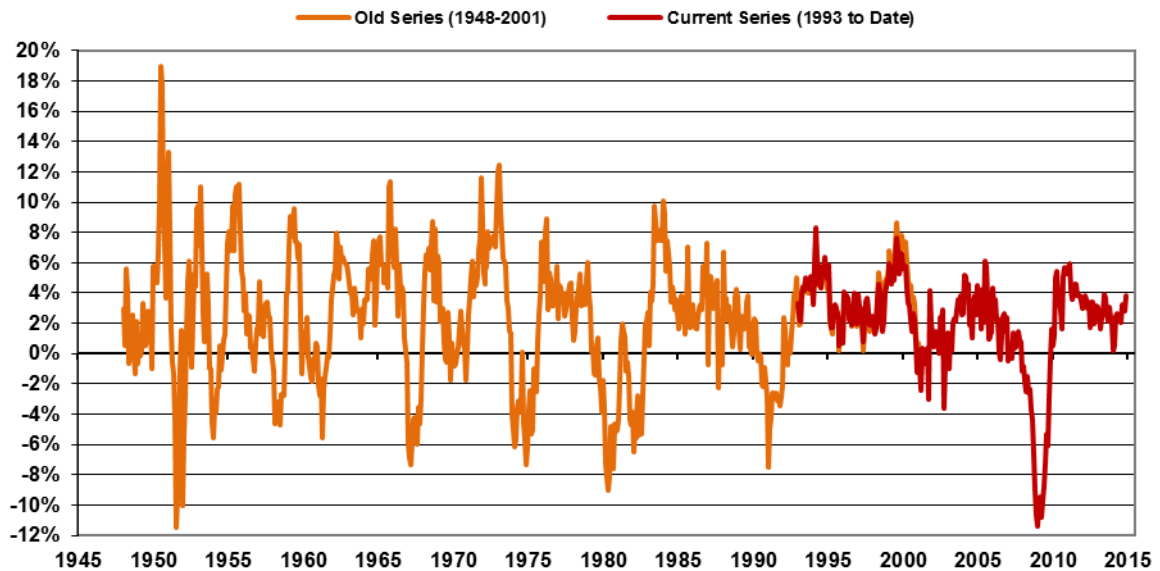




**Real Retail Sales (Deflated by CPI-U)**  
To November 2014, Seasonally-Adj. (ShadowStats, St. Louis Fed)



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



The apparent “recovery” in the real retail sales series and (and series such as industrial production and 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, even allowing for the temporary November “spike.” 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 most recently discussed in the *Opening Comments* of [Commentary No. 680](#), 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 seen 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.

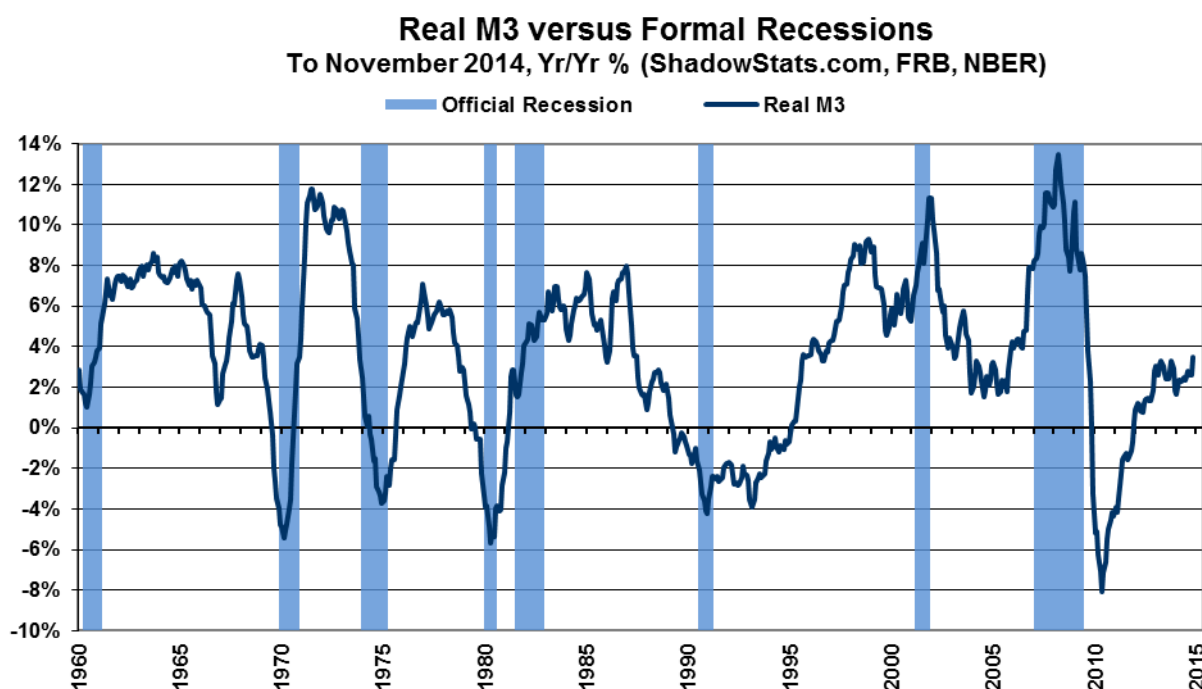
***Real (Inflation-Adjusted) Average Weekly Earnings—November 2014—Rose by 0.60% for the Month.*** Coincident with today's (December 17th) November 2014 CPI-W release, the BLS also published real average weekly earnings for the month of November 2014 (deflated by CPI-W). On a seasonally-adjusted basis, headline monthly CPI-W declined by 0.41% (-0.41%) in November, following a headline decline of 0.08% (-0.8%) in October.

In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings, rose by 0.60%, reflecting a 0.19% gain in nominal earnings and the headline decline of 0.41% (-0.41%) in inflation. That was against a revised 0.52% (previously 0.57%) real gain in October.

Year-to-year and seasonally-adjusted, November 2014 real average weekly earnings rose by 1.45%, versus an unrevised 1.31% annual gain in October. 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 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—November 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 November 2014 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for November 2014 jumped to 3.5% from an unrevised 2.6% in October. The 0.9% increase in November annual growth reflected a 0.6% pick up in the pace of annual headline M3 growth plus a 0.3% drop in the annual inflation rate.



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 purported strength in second- and third-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. 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](#).

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## WEEK AHEAD

**Against Overly-Optimistic Expectations, Economic Releases and Revisions in the Month Ahead Should Trend Much Weaker; Inflation Releases Should Be Increasingly Stronger after Temporary Oil-Price Declines.** Shifting some to the upside, again, from the downside, amidst wide fluctuations in the numbers, market expectations for business activity remain 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, however, 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. Allowing for the nonsense-growth in the headline second-quarter and third-quarter GDP (see *Opening Comments* of [Commentary No. 677](#)), 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 (which most likely will involve reporting of fourth-quarter 2014 GDP).

A generally stronger consumer inflation trend remains likely, as seen before August, although headline inflation is muted at present, for several months, by a temporary, sharp 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 or overt financial sanctions against Russia that currently 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:***

**Gross Domestic Product—GDP (Third-Quarter 2014, Third Estimate, Second Revision).** The Bureau of Economic Analysis (BEA) will publish its third estimate of, second revision to third-quarter 2014 GDP on Tuesday, December 23rd. Following an extremely-overstated, annualized quarterly real headline growth rate of 4.6% for second-quarter GDP, the BEA's "advance" headline reporting of a statistically-insignificant 3.5% annualized real quarterly growth also was well beyond the bounds of reason in this most worthless of popular economic series. Nonetheless, the first revision took headline second-quarter growth to 3.9%, and early-market expectations for the second revision are for annualized headline real growth to move above 4.0%. That may well happen, given the upside revisions just published to third-quarter industrial production (see [Commentary No. 681](#)), but it is utter nonsense, just garbage reporting.

If one believes the headline GDP growth rate, then the U.S. economy is booming, experiencing its strongest period of growth in the last decade. Most of those living in the United States are not experiencing that. Underlying reality would suggest sharp downside revisions to both second- and third-quarter GDP growth estimates, but that is not likely now until the July 30, 2015 annual benchmark revision to the series. Where the GDP reporting is headed in the near-term will be discussed in the pending December 23rd *Regular Commentary* and fully assessed for the year ahead in the December 29th *Special Commentary*.

**New Orders for Durable Goods (November 2014).** Reporting of November 2014 new orders for durable goods also is scheduled for Tuesday, December 23rd, by the Census Bureau. Reflecting massive, irregular swings in commercial aircraft orders, aggregate durable orders surged by 22.5% in July and then plunged by an offsetting 18.3% (-18.3%) in August, but were relatively quiet in September and October. Now, however, with Boeing receiving extremely strong November orders, including the largest-ever U.S. commercial aircraft order, early-market expectations are for a massive—probably largest-ever jump—in monthly new orders for durable goods, come the headline November 2014 reporting detail.

Aircraft orders are booked for the long-term—years in advance—so they have only limited impact on near-term production. For example, the massive Emirates' order is not scheduled for deliveries to begin

until 2020 to 2025, with negligible impact on near-term economic activity. Further, by their nature, these types of orders do not lend themselves to seasonal adjustment.

Accordingly, the meaningful question for the reporting of November 2014 new orders for durable goods—in terms of the series as a near-term leading indicator of economic activity—is what happened to the level of new orders, ex-commercial aircraft. Net of the extreme commercial-aircraft orders volatility, new orders have been reasonably stagnant in recent months and should remain stagnant-to-down in the headline November 2014 reporting.

**Existing- and New-Home Sales (November 2014).** November 2014 existing-home sales are due for release on Monday, December 22nd, from the National Association of Realtors, with the November 2014 new-home sales report due from the Census Bureau on Tuesday, December 23rd. Reflecting negative, fundamental pressures similar to those seen pummeling housing construction (see the *Opening Comments*), the outlook for home-sales activity remains bleak.

Despite a headline monthly gain in October existing-home sales, recent negative trends in headline monthly reporting likely continued in November, and such would be consistent with what appear to be soft market expectations. Continued faltering activity in both home-sales series remains closely tied to the persistent consumer liquidity problems discussed in [Commentary No. 680](#).

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

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