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

COMMENTARY NUMBER 699
January CPI, Real-Retail Sales and Earnings, Durable Goods, Home Sales

February 26, 2015

First-Quarter Economic Contraction Indicated by Retail Sales and Durable Goods Orders

Headline January Real-Retail Sales Still Fell by 0.1% (-0.1%), On Top of the Monthly Plunge of 0.7% (-0.7%) in the CPI-U

Home Sales Activity Remained Heavily Stressed

Unchanged before Inflation, Real Average Weekly Earnings Gain Was Due to Headline Plunge in CPI-W Inflation

January Year-to-Year Inflation: -0.1% (CPI-U), -0.8% (CPI-W), 7.5% (ShadowStats)

Average Oil and Gasoline Prices Increased in February

PLEASE NOTE: The next regular Commentary, *planned for tomorrow, Friday, February 27th, will cover the first revision, second estimate of fourth-quarter 2014 GDP.*

The U.S. Treasury had advised that its Financial Report of the United States Government, Fiscal Year 2014 *would be released today, at 3 p.m., Washington, D.C. time. That has not happened. Initial ShadowStats observations will be offered, at such time as the statements are available and a preliminary review has been completed.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Despite Negative Inflation "Boosting" Real Growth, Economy Heads Lower in First-Quarter 2015. With January reporting in place for both real retail sales and new orders for durable, real business activity is crashing, even though inflation is negative (CPI-U for retail sales) or flat (PPI Manufactured Durable Goods for new orders).

Real retail sales slowed sharply in fourth-quarter 2014 activity, with first-quarter activity trending into downturn. based on January 2015 reporting, both before after adjustment for inflation. New orders for durable goods, irrespective of whether commercial aircraft orders are excluded, and irrespective of whether the numbers are adjusted for inflation, has contracted sharply in fourth-quarter 2014 and is headed for a first-quarter 2015 contraction, based on January 2015 reporting. Separately, December home sales remained heavily stressed with no turnaround underway or pending in that industry.

With oil prices bottoming out, at present, inflation should begin to rebound as well, in the next couple of months. Higher inflation will mean weaker real (inflation-adjusted) economic activity, exacerbating the business slowdown that has begun to show in faltering retail sales and new orders.

Inflation, Deflation and Gimmicked Reporting Methodology. Unadjusted, year-to-year CPI-U inflation turned negative in January 2015, down by 0.09% (-0.09%) from January 2014, the first formal deflation since October 2009. October 2009 ended a string of six months showing negative annual inflation, which, like today, involved a period of collapsing oil and gasoline prices. Otherwise, shallow deflation such as this has not been seen since the 1950s, if you believe the government's headline inflation reporting.

Adjusting for the impact of changes in inflation methodology over time—changes made deliberately by the government in order to reduce headline inflation—the U.S. has not seen any actual deflation, minimal or otherwise, since the 1950s (see the ShadowStats Alternate Inflation Measure comments in the *Reporting Detail*, graphs of alternate CPI measurement at the Alternate Data tab on ShadowStats.com, and the ***Public Comment on Inflation***, a document that will be updated fully in the near future).

The latest round of changes to the CPI reporting methodology was introduced today, expected "not to have significant effect" on reporting results, but that is unlikely. Changes are being made to the fully-substitution-based Chained-CPI-U (C-CPI-U), which by its structure should report lower headline inflation that the either the CPI-U or CPI-W series. Substitution effects on product weighting will be enhanced (meaning reduced headline inflation), and the C-CPI-U reporting will be finalized on a much more timely basis. These issues all play into the plans of some in Washington, D.C., who would like to use the C-CPI-U for the government's cost of living adjustments (COLA). Replacing the CPI with the C-CPI would have significant effect on headline inflation, and such was the ultimate goal of the changes put in place today.

Reduced inflation here not only would cut government outlays by reducing COLA adjustments to programs such as Social Security, but also would enhance government tax receipts, by artificially boosting taxpayers into higher tax brackets.

Changes made by the government to the CPI in recent decades, generally have been designed to improve the federal government's financial circumstance, not to provide its citizens with a CPI that better measures their common experience. This is just more of the same.

Today's Missive (February 26th). The balance of this *Commentary* concentrates on the detail from today's reporting of the January CPI and related real retail sales and earnings, new orders for durable goods, and the recent reporting of new- and existing-home sales for January.

No. 692 Special Commentary: 2015 - A World Out of Balance updated the *Hyperinflation 2014* reports and the broad economic outlook. The *Hyperinflation Watch* section contains the graphs of gold versus the Swiss franc, oil and silver and related comments that usually accompany the CPI *Commentaries*, but an updated *Hyperinflation Summary Outlook* based on *No. 692* still is a week away. In the interim, such a *Summary* is reflected in the *Opening Comments* of *No. 692*, or in *Commentary No. 684* (prior version). The new *Summary* simply will be a distillation of those two relatively brief items.

The *Week Ahead* section again previews tomorrow's first revision to fourth-quarter 2014 GDP, with minor revision. The outlook for next week's reporting of January construction spending, the trade deficit and the February estimates of employment and payroll employment will be found in the *Week Ahead* section of tomorrow's missive.

Consumer Price Index (CPI)—January 2015—Bottoming Out, February 2015 Oil and Gasoline Prices Have Turned Higher. The downturn in headline inflation should bottom out and reverse in the next several months. Average prices for crude oil and retail gasoline have risen in February 2015 versus January. Although sharply negative seasonal adjustments are in place for February gasoline prices, which may mute an upturn in the seasonally-adjusted February CPI, the firming process in oil prices should be matched shortly with a leveling off and upturn in headline inflation.

CPI-U. In the context of annual benchmark revisions to monthly seasonal adjustments (see prior *Commentary No. 698*), the Bureau of Labor Statistics (BLS) reported that headline, seasonally-adjusted January 2015 CPI-U declined month-to-month by 0.68% (-0.68%). That was against the December 2014 revised reading of a contraction of 0.33% (-0.33%) [previously down by 0.37% (-0.37%)]. On a not-seasonally-adjusted basis, the January 2015 CPI-U fell by 0.47% (-0.47%) month-to-month, following a contraction of 0.57% (-0.57%) in December 2014.

The CPI revisions did not affect unadjusted data, including the ShadowStats Alternate Inflation Measures. Where the BLS headlines only the single-decimal-point inflation rates, the seasonally-adjusted monthly CPI-U inflation changes for 2014 were revised up by 0.1% in January, unrevised in February and March, revised lower by 0.1% (-0.1%) in each of April, May and June, unrevised in July and August and November, and revised up by 0.1% in each of September October and December.

Not seasonally adjusted, January 2015 year-to-year inflation for the CPI-U was a headline decline of 0.09% (-0.09%), versus a gain of 0.76% in December 2014.

CPI-W. The January 2015 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, fell by 0.93% (-0.93%), versus a revised decline of

0.47% (-0.47%) in December. Unadjusted, year-to-year CPI-W inflation fell by 0.76% (-0.76%) in January 2015, versus an annual gain of 0.32% in December 2014.

Chained-CPI-U. Initial reporting of unadjusted year-to-year inflation for the January 2015 C-CPI-U was an annual decline of 0.59% (-0.59%), versus a revised annual gain of 0.49% in December 2014.

Alternate Consumer Inflation Measures. The ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 3.5% in January 2015, versus 4.3% in December 2014. The January 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 7.5% year-to-year in January 2015, versus 8.4% in December 2014.

Real Retail Sales—January 2015— First-Quarter 2015 Looks Like a Contraction, Despite Negative Inflation. In nominal terms, before adjustment for inflation, headline monthly retail sales declined by a statistically-significant, seasonally-adjusted 0.79% (-0.79%) in January 2015, having declined by a revised 0.86% (-0.86%) in December 2014, as discussed in *Commentary No. 696*.

Headline Reporting of Real Retail Sales. Based on a headline monthly decline in January 2015 CPI-U of 0.09% (-0.09%), and in the context of a revised headline decline of 0.33% (-0.33%) in December CPI-U, real retail sales declined by a headline 0.11% (-0.11%) in January 2015, versus a revised headline drop in December 2014 monthly real retail sales of 0.54% (-0.54%).

As discussed in *Commentary No. 698*, in terms of annualized quarter-to-quarter growth, real retail sales in fourth-quarter 2014 were up by a revised 2.76% (previously 3.01%) versus the third-quarter. In turn, third-quarter annualized growth was revised to 3.05% (previously 3.14%). The first-quarter 2015, based solely on January reporting, is on track for a real, annualized quarterly contraction of 0.93% (-0.93%). In nominal terms, before inflation adjustment, first-quarter 2015 also is on track to contract, but at an annualized pace of 4.81% (-4.81%).

The last time real retail sales contracted on a quarterly basis was in first-quarter 2014, down by an annualized 0.70% (-0.70%). With positive inflation at that time, nominal first-quarter 2014 retail sales rose at an annualized pace of 1.37%. Nonetheless, headline real GDP also last contracted in first-quarter 2014, mirroring the real retail sales activity.

Perversely, while headline CPI-U year-to-year inflation (always on a not-seasonally-adjusted basis) declined by 0.09% (-0.09%), year-to-year seasonally-adjusted CPI-U was down by 0.19% (0.19%), reflecting distorted seasonal factors. That said, it is the adjusted year-to-year change used in deflating retail sales, given the nature of the retail sales series (best viewed seasonally-adjusted).

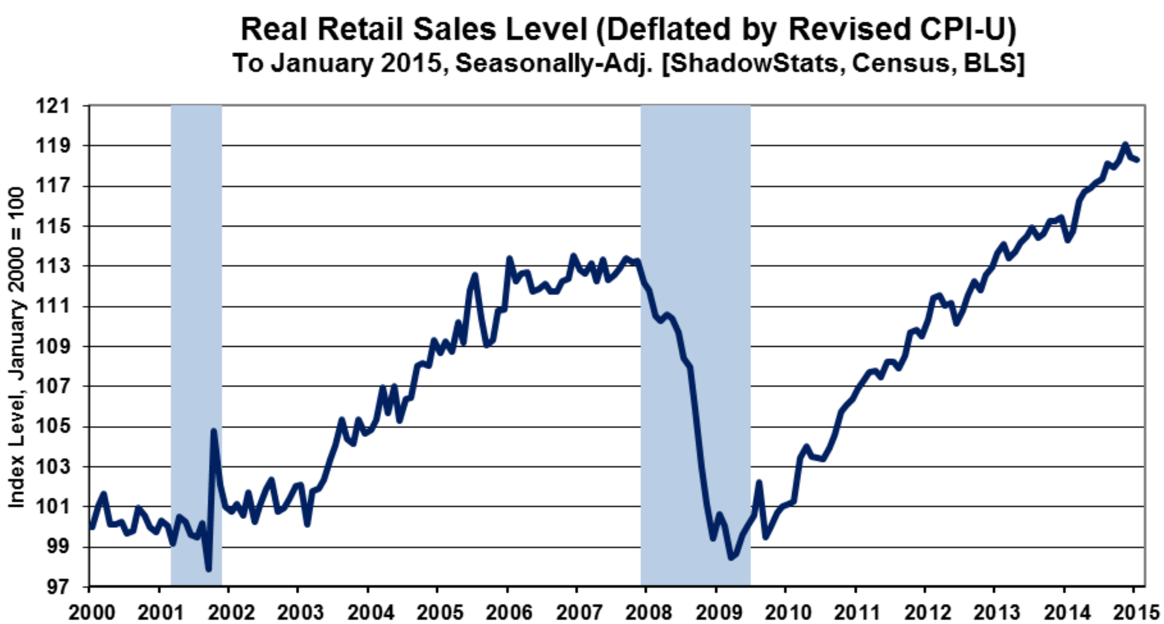
Accordingly, year-to-year change in January 2015 retail rose to 3.53%, versus a revised December 2014 real retail sales annual gain of 2.65%. In normal economic times, annual real growth at or below 2.0% would signal an imminent recession. That signal had been given recently; a signal that still is in play and likely will serve as an indicator of renewed downturn in broad economic activity. The annual level and growth in real retail sales is plotted in the *Reporting Detail* section.

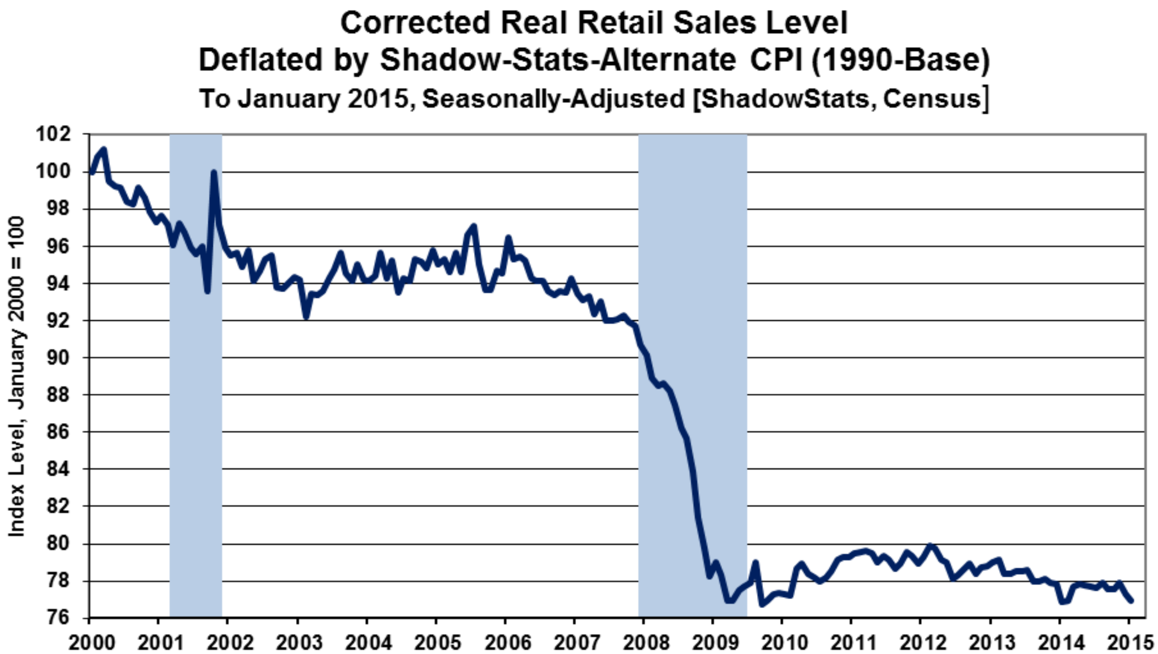
Separately, as discussed at the end of these *Opening Comments* and in *No. 692 Special Commentary: 2015 - A World Out of Balance*, during the last six-plus years of economic collapse and stagnation, consumer buying of goods and services has been constrained by the intense, structural-liquidity woes besetting the consumer.

As headline consumer inflation resumes 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.

Corrected Real Retail Sales—January 2015**.** The apparent "recovery" in headline real retail sales generally has continued, although headline reporting turned down in December 2014 and January 2015. Nonetheless, headline real growth in retail sales continues to be overstated heavily, due to the understatement of the rate of inflation used in deflating the retail sales series. As discussed more fully in *Chapter 9* of *2014 Hyperinflation Report—Great Economic Tumble* – *Second Installment*, deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth.

Both graphs following are indexed to January 2000 = 100.0 to maintain consistency in the series of graphs related to corrected inflation-adjustment (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 (preceding)—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 consumer indicators like real median household income, consumer confidence, unemployment and in 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 at a low-level plateau of economic activity since the economic collapse from 2006 into 2009. The renewed contraction has trended into early-2015, allowing for the occasional and temporary upside blip.

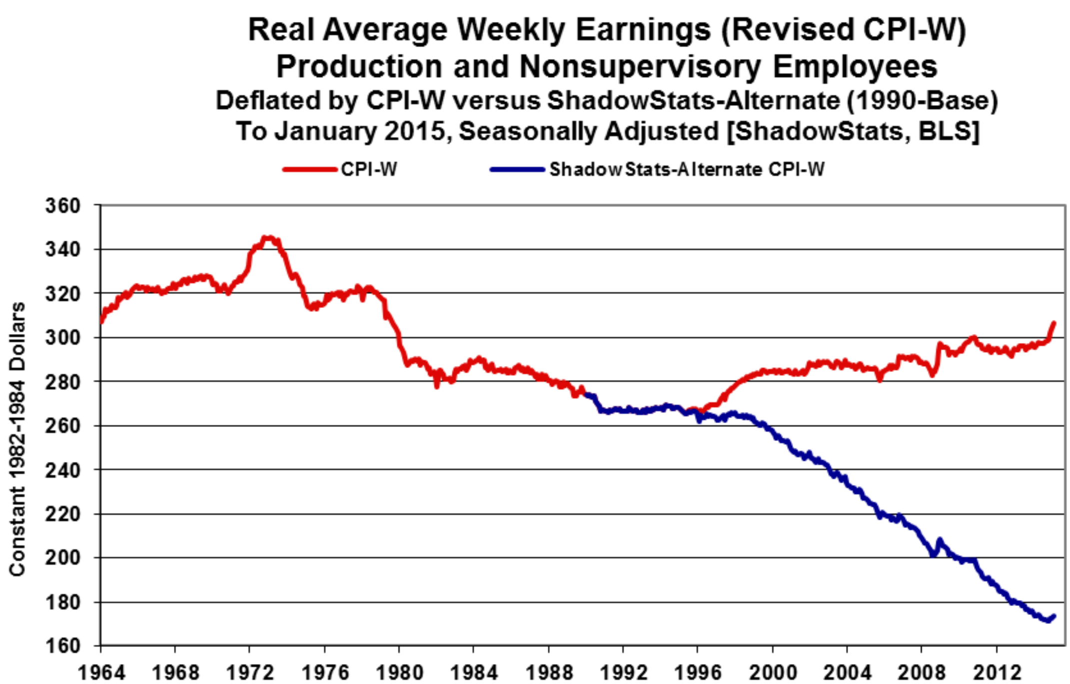
Real (Inflation-Adjusted) Average Weekly Earnings—January 2015—Flat in Nominal Terms, Real Earnings Jumped Solely Due to Negative Inflation. Coincident with the reporting of a headline decline monthly of 0.93% (-0.93%) in the January 2015 CPI-W, and in the context of annual benchmark revisions to the inflation seasonal-adjustments and to the underlying earnings series, the BLS published real average weekly earnings for the month of January 2015 (deflated by CPI-W). Again, on a seasonally-adjusted basis, headline monthly CPI-W declined by 0.93% (-0.93%) in January, following a revised headline decline of 0.47% (-0.47%) in December.

In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings, rose by 0.98% in January 2015, and by a revised 0.58% in December 2014. For both months, average weekly earnings basically were unchanged, before consideration for inflation. Nearly all the headline monthly growth in real earnings in the last two months was due to the sharp decline in headline inflation, driven lower by collapsing gasoline prices.

Year-to-year and seasonally-adjusted, January 2015 real average weekly earnings jumped to 3.80%, versus a revised 2.59% gain in December. Both the monthly and annual fluctuations in this series are irregular, but current reporting remains well within the normal bounds of volatility, with the exception of the unusual inflation patterns.

The accompanying 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.

That said, the sharp decline in headline inflation has generated a temporary, but visible spike in real-earnings level, both in the headline and ShadowStats series for the last several months.



New Orders for Durable Goods—January 2015—Second, Consecutive Quarter-to-Quarter Contraction Unfolding for New Orders. Allowing for sharp swings in low levels of commercial aircraft orders, January 2015 new orders for durable goods fell for the third month and set the stage for meaningful back-to-back quarterly downturns in new orders.

Annualized quarterly growth in inflation-adjusted (real) terms, new orders—ex-commercial aircraft—contracted in fourth-quarter 2014 at a revised annualized pace of 5.6% (-5.6%), where real growth had slowed sharply in third-quarter 2014 to 4.3%, from a 14.9% gain in second-quarter 2014. Based only on January 2015 reporting, first-quarter 2015 is on track for an annualized real contraction of 4.5% (-4.5%).

The ex-commercial aircraft number is the one to look at as an indicator of pending, broad economic activity, due to the extreme and irregular nature of the volume of aircraft orders, as well as the limited impact of those orders on near-term economic activity. Consider that including the aircraft orders, real fourth-quarter total durable goods orders fell at an annualized quarterly pace of 34.3% (-34.3%), having risen at a 39.5% annualized pace in the third-quarter. Based only on January 2015 reporting, real first-quarter 2015 total orders are on track for an annualized 1.9% contraction.

Activity in aggregate new orders for durable goods is irregularly volatile**,** usually due to the extreme and unstable patterns in nondefense- or commercial-aircraft orders. Even so, related commercial-aircraft order swings in July and August 2014 (third quarter) reporting were the most-extreme events of recent years, up by 315.6%, and down by 74.0% (-74.0%) respectively. They were followed by a smaller commercial-aircraft order decline in September of 16.0% (-16.0%), a revised, negligible order gain of 0.8% in October, an unrevised decline of 11.0% (-11.0%) in November, a revised December decline of 58.3% (-58.3%), and the headline January 2015 monthly gain of 128.5%.

Both before and after consideration of volatility in commercial-aircraft orders, headline January durable goods orders remained well within the normal reporting variations of this highly unstable series, consistent with a pattern of stagnation. The inflation-adjusted real series, and that same series corrected for understatement of the official inflation series, also are discussed and graphed here, shortly. They remain broadly stagnant with a developing downtrend of a nature that commonly precedes or coincides with a recession or deepening business downturn.

Nominal (Not-Adjusted-for-Inflation) January 2015 Reporting. The regularly-volatile, headline. seasonally-adjusted, nominal level of January 2015 new orders for durable goods gained 2.83% for the month, following a revised decline of 3.74% (-3.74%) in December, and a revised November decline of 2.15% (-2.15%). Net of prior-period revisions, aggregate new orders for January gained by 2.44% versus December, instead of the headline 2.83%.

Year-to-year and seasonally-adjusted growth in January 2015 durable goods orders rose by 5.42%, versus revised annual contraction of 0.07% (-0.07%) in December, versus a revised decline of 1.19% (-1.19%) in November.

Detail Net of Volatility in Commercial Aircraft Orders. The reporting of extreme contractions and surges in commercial aircraft orders is seen commonly in an irregularly-repeating process throughout the year and often dominates the changes in headline monthly durable goods orders. These extremely volatile aircraft orders are booked years into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity.

Net of a headline monthly gain of 128.50% in January 2015 commercial aircraft orders, aggregate orders declined by 0.38% (-0.38%). Net of revised decline of 58.33% (-58.33%) in December orders, aggregate orders fell by 0.41% (-0.41%) for the month. Net of an unrevised decline of 11.03% (-11.03%) in November aircraft orders, aggregate orders fell by a revised 1.55% (-1.55%) in the month.

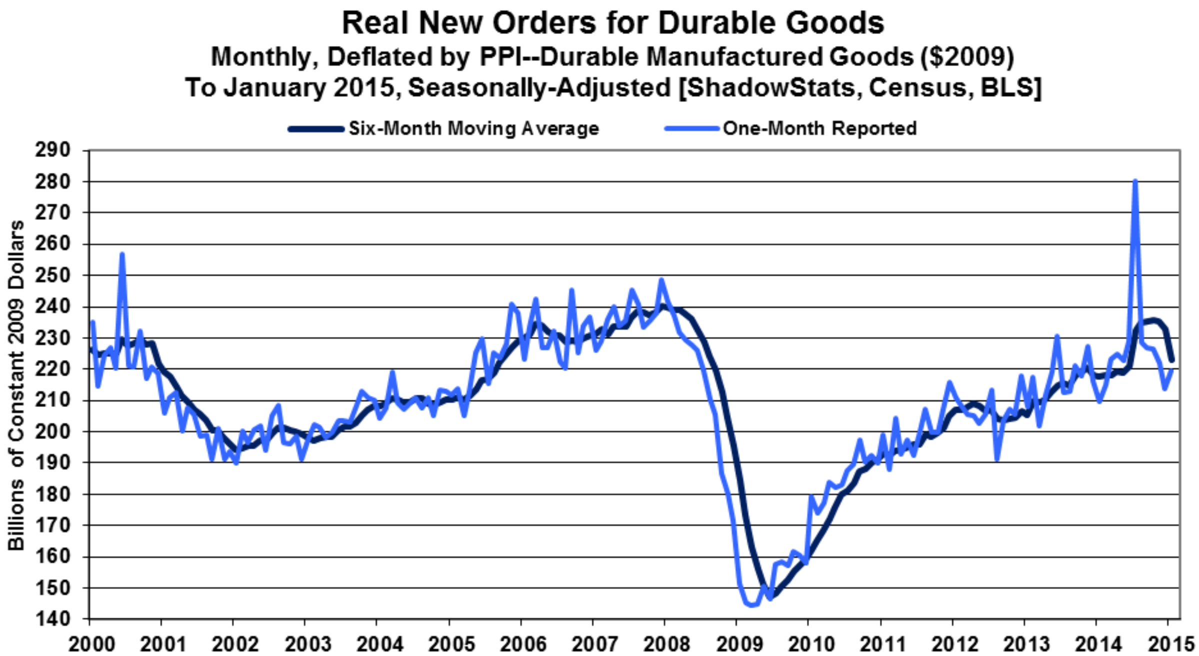
Real (Inflation-Adjusted) Durable Goods Orders—January 2015. ShadowStats uses the PPI aggregated inflation measure "Durable Manufactured Goods" for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related PPI series reflected a headline "unchanged" pace of inflation in January 2015, for a second month, the same as in December 2014, with headline annual inflation at 0.72% in January 2015, versus 1.09% in December 2014.

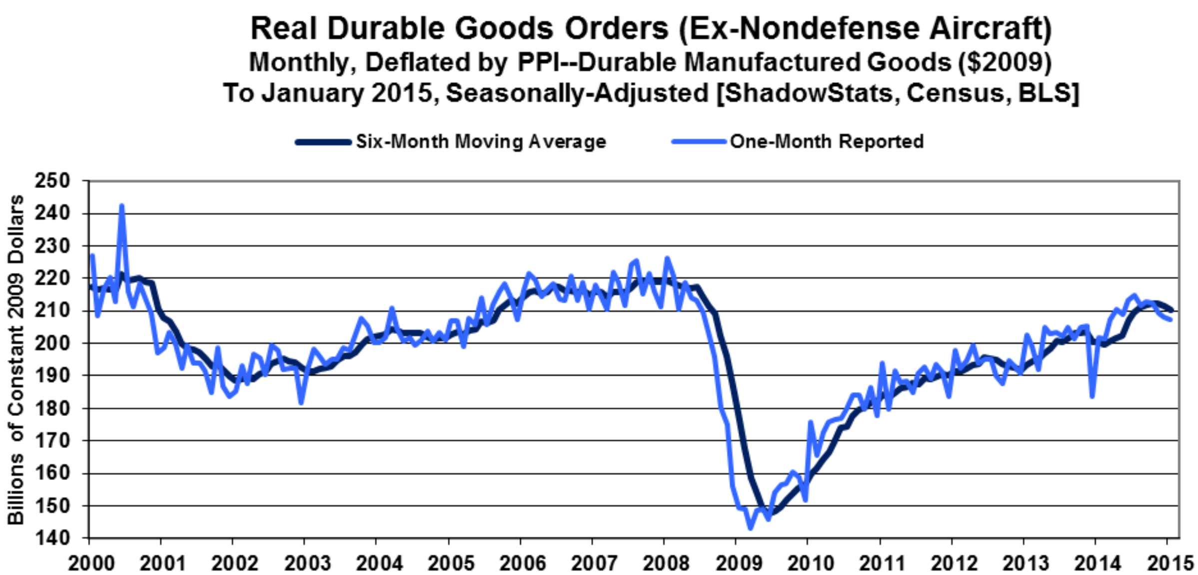
Adjusted for that inflation, and again as reflected in the accompanying graphs, real month-to-month aggregate orders roses by 2.83% in January 2015, following a decline of 3.74% (-3.74%) in December, and a drop of 2.09% (-2.09%) in November. Ex-commercial aircraft, real orders fell by 0.38% (0.38%) month-to-month in January 2015, following 0.41% (-0.41%) decline in December, and a decline of 1.49% (-1.49%) in November.

Real year-to-year aggregate orders rose by 4.66% in January 2015, following a decline of 1.14% (-1.14%) in December 2014, and an annual decline of 2.31% (-2.31%) in November. Ex-commercial aircraft, orders rose year-to-year by 2.87% in January 1015, following a 13.41% gain in December 2014, and gain of 1.78% in November. The surge in December year-to-year growth was against an unusually-sharp drop in defense orders in December 2013.

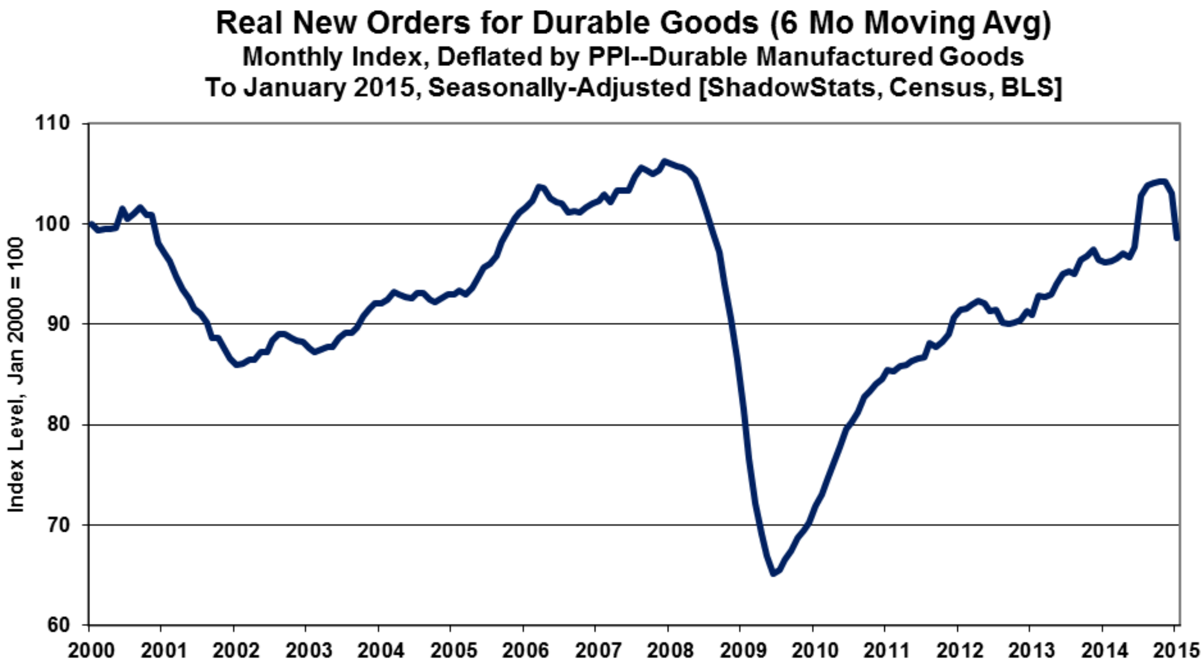
Graphs of Inflation-Adjusted and Smoothed Durable Goods Orders and the Corrected Series. The first two graphs show new orders for durable goods, again, adjusted for inflation using the Producer Price Index (PPI) measure for "Durable Manufactured Goods." These graphs show monthly as well as a six-month moving-average of the activity level. The first graph shows the aggregate new orders series, including the extreme swings in commercial-aircraft orders in July and August, with a return to some stability in September 2014, through January 2015. The second graph is the headline series, net of the unstable commercial-aircraft order sector. Accordingly, the ex-commercial aircraft plot is somewhat smoother than the first graph. Given the extreme surge in July 2014 aircraft orders, the six-month moving average in the aggregate series, or first graph, looked like an anaconda swallowing a cow, but that passed from the moving average with toady's reporting.

In terms of inflation-adjusted activity, both of these series have shown a slowing uptrend and flattening-out in the last two-to-three years—with a dip and upside bouncing into 2013, and renewed stagnation, feeding into the temporary July surge. Broadly, there has been a recent general pattern of stagnation or bottom-bouncing evident in the orders—clearly not the booming recovery that has been seen in official GDP reporting. The real (inflation-adjusted) six-month moving-average level of new orders in January 2015 was below the pre-2007 recession high, as well as below the pre-2000 recession high. The pattern of recent stagnation now turning to a downtrend in the inflation-adjusted series—net of the irregular aircraft-order effects—also is one that commonly precedes or is coincident with a recession.





The Real Orders Series Corrected for Inflation Understatement. As with other economic series deflated by official government inflation measures, estimates of inflation-adjusted growth in new orders for durable goods are overstated, due to the understatement of the official inflation. That understatement here is through the government's use of hedonic-quality adjustments—quality issues usually not perceived by the consumer—in justifying a reduced pace of headline inflation (see *Public Comment on Inflation*).


Real New Orders for Durable Goods (6 Mo Moving Avg)
Monthly Index, Deflated by PPI--Durable Manufactured Goods
To January 2015, Seasonally-Adjusted [ShadowStats, Census, BLS]
Index Level, Jan 2000 = 100
110
100
90
80
70
60
2000
2001
2002
2003
2004
2005
2006
2007
2008
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2010
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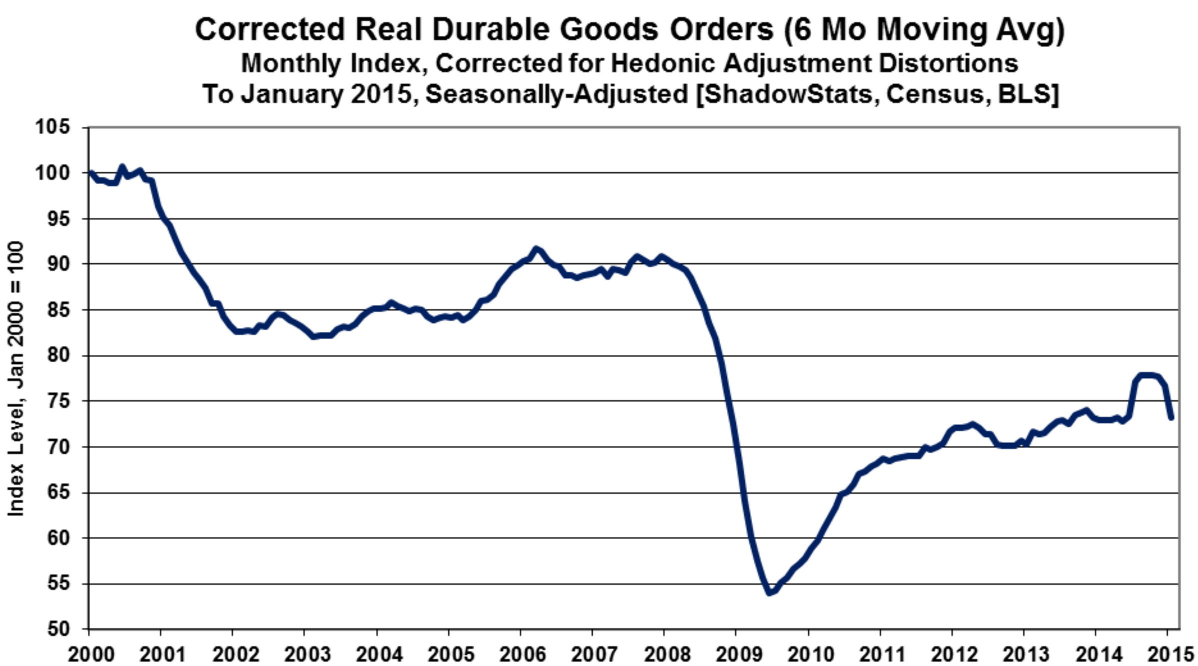
2013
2014
2015


Corrected Real Durable Goods Orders (6 Mo Moving Avg)
Monthly Index, Corrected for Hedonic Adjustment Distortions
To January 2015, Seasonally-Adjusted [ShadowStats, Census, BLS]
Index Level, Jan 2000 = 100
105
100
95
90
85
80
75
70
65
60
55
50
2000
2001
2002
2003
2004
2005
2006
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2011
2012
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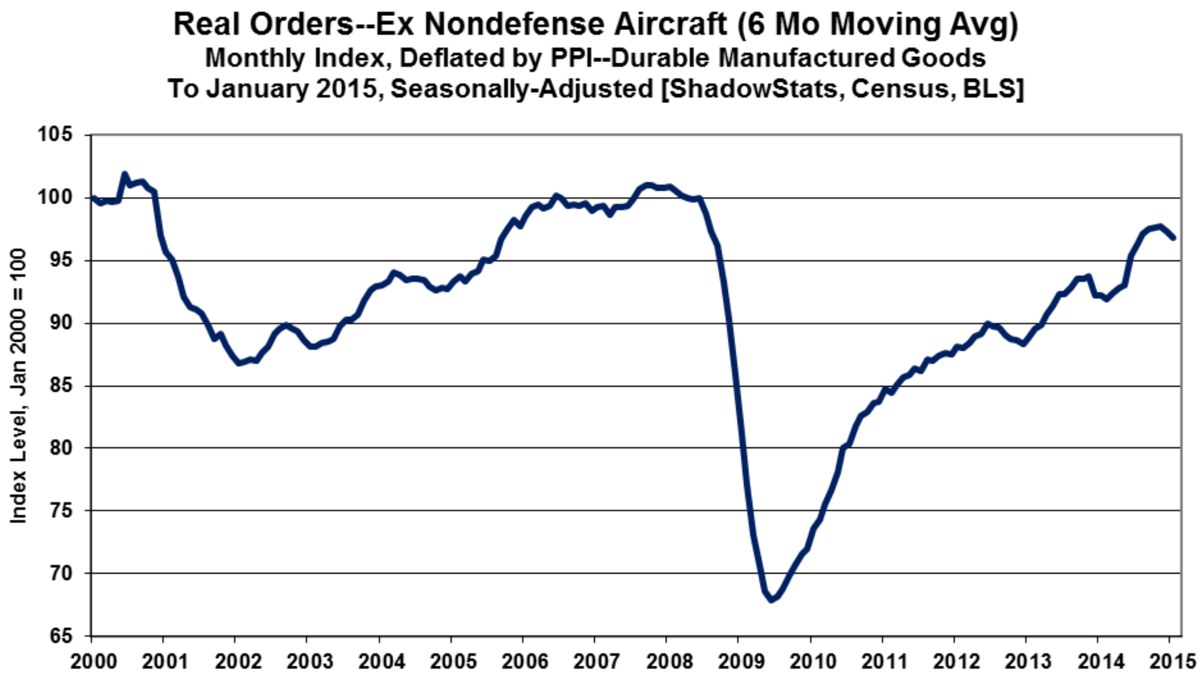
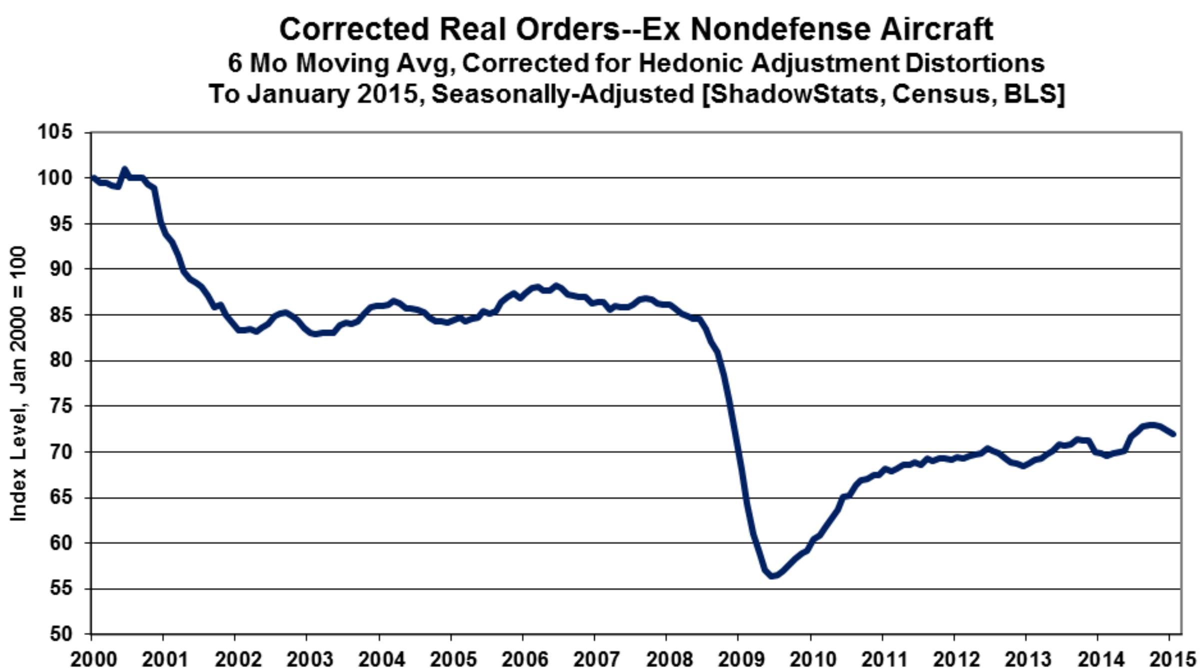
2014
2015





As has been done with other series such as the GDP, retail sales and industrial production, ShadowStats publishes an experimental corrected version of the inflation-adjusted graph of real new orders for durable goods, corrected for the understatement of the related headline PPI inflation.

The preceding two sets of graphs are first, for the aggregate series or total durable goods orders. The second set is for the ex-commercial aircraft series. The first plot in each series is the six-month moving average shown in the earlier set of graphs. The second plot is the same series as re-deflated to correct for the estimated understatement of the PPI-related inflation measure used in the headline-deflation process. This set of graphs is indexed to January 2000 = 100.0.

The second graph in the second set, entitled "Corrected Real Orders--Ex Nondefense Aircraft," is perhaps the best indicator of broad underlying order activity in the durable goods sector, in the context of signaling actual, near-term production and economic activity.

The aggregate orders series—in the first set—includes the commercial aircraft. Placed years in advance, aircraft orders are a better indicator of long-range production activity, than they are as a near-term leading indicator of production activity.

Home Sales—January 2015—Residential Real Estate Avtivity Remains Constrained by Consumer Liquidity Problems. Existing-home sales fell anew in January 2015, as did the traditionally-unstable and statistically-insignificant new-home sales reporting. Where existing-home sales appear to have set a new downtrend, the best that can be said for series sctivity is that it remains in an ongoing pattern of protracted low-level stagnation.

New-Home Sales—January 2015—Unstable Headline Reporting Showed Ongoing, Low-Level Sales Stagnation. Although January 2015 headline monthly new-home sales fell by just 0.2%, the 95% confidence interval around that headline change was plus-or-minus 26.1%. Annual sales gained by 5.3%, plus-or-minus 25.9%. These numbers remain nonsense. The Census Bureau still cannot give a meaningful estimate as to whether or not new-home sales rose or fell, in aggregate, for all of 2014.

The approach here in assessing these otherwise worthless headline monthly numbers and related housing-starts data—on a somewhat-meaningful basis—is to consider the monthly gyrations in the context of a six-month moving average of headline activity. Such is plotted in the accompanying graphs, along with the headline monthly detail for new-home sales.

Graphed either way, the various housing series continued to show a pattern of economic activity plunging from 2005 or 2006 into 2009, and then stagnation, with the stagnation continuing at a low level of activity to date. Housing never recovered with the purported GDP reporting. Headline January 2015 new-home sales activity still was down by 64.8% (-64.8%) from the pre-recession peak of July 2005, while January 2015 single-unit housing starts were down by 62.8% (-62.8%) from the January 2006 high of that series. As discussed further in the *Consumer Liquidity* section, there has been no underlying improvement in fundamental consumer liquidity conditions. Correspondingly, there has not been a basis here for a recovery in the housing market, past, present or pending.

Longer-Term Pattern of New-Home Sales Was Consistent With Ongoing Stagnation. In the context of a minimal upside revision to December 2014, January 2015 headline new-home sales (counted based on contract signings, Census Bureau) fell by a statistically-insignificant 0.2% (-0.2%). That followed a downwardly revised monthly gain of 8.1% in December. Net of prior-period revisions, January 2015 sales were unchanged for the month, instead of the headline 0.2% (-0.2%) decline. Year-to-year, January 2015 sales rose by a statistically-insignificant 5.3%, following a revised 9.0% gain in December.

Existing-Home Sales—January 2015—Sales Stumbled in January, Despite Favorable Seasonal-Factor Readjustments. Along with the headline reporting of January 2015 existing-home sales, the National Association of Realtors [NAR] published its annual revisions to seasonal adjustment factors for the last three years. The effect was to shift growth from the May-to-October period, to the November-to-April, enhancing reporting for recent months and the current headline month-to-month growth rate.

For example, as of last month's headline reporting for December, fourth-quarter 2014 sales had contracted at an annualized pace of 4.1% (-4.1%), versus third-quarter 2013. Now, that quarterly growth pattern is flat, thanks solely to shifting seasonal adjustments, not to any meaningful historical change in actual underlying sales activity.

Despite the shifted seasonals, monthly growth for January 2015 took a tumble. Although year-to-year growth remained positive, the trailing twelve months of activity still was below the year-ago period by 0.17%, and January 2015 sales were at their weakest level since April of 2014. As seen in the accompanying graph, that translates into existing-homes sales activity haven fallen off by 6.6%, through January 2015, since hitting a near-term activity peak in October of 2014.

The January 2015 headline annual sales pace of 4,820,000 (an average monthly pace of 401,667) also remained down by 33.7% (-33.7%) from the June 2005 pre-recession peak in sales.

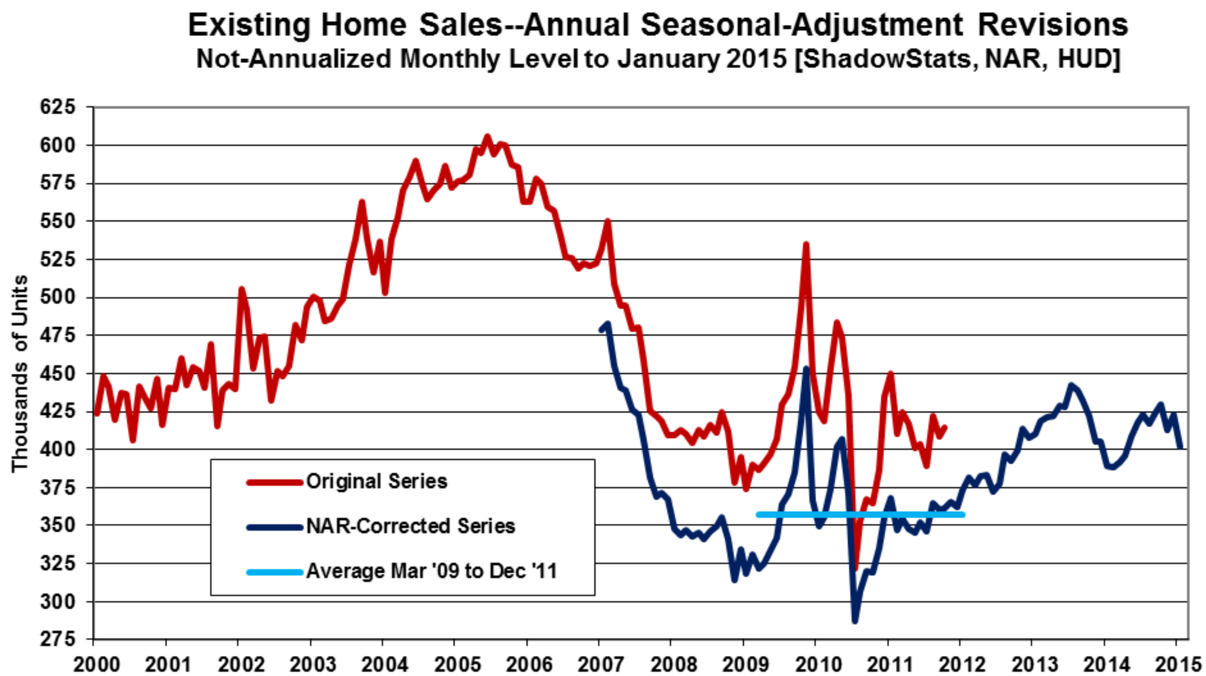
Headline Detail for January Existing-Home Sales. In the context of the annual revision to the seasonal-adjustment factors, headline January 2015 existing-home sales (counted based on actual closings, NAR) showed a seasonally-adjusted headline monthly decline of 4.9% (-4.9%), following an unrevised monthly gain of 2.4% in December, and a revised decline of 4.1% (-4.1%) in November. Net of prior-period revisions, the January decline was 4.4% (-4.4%).

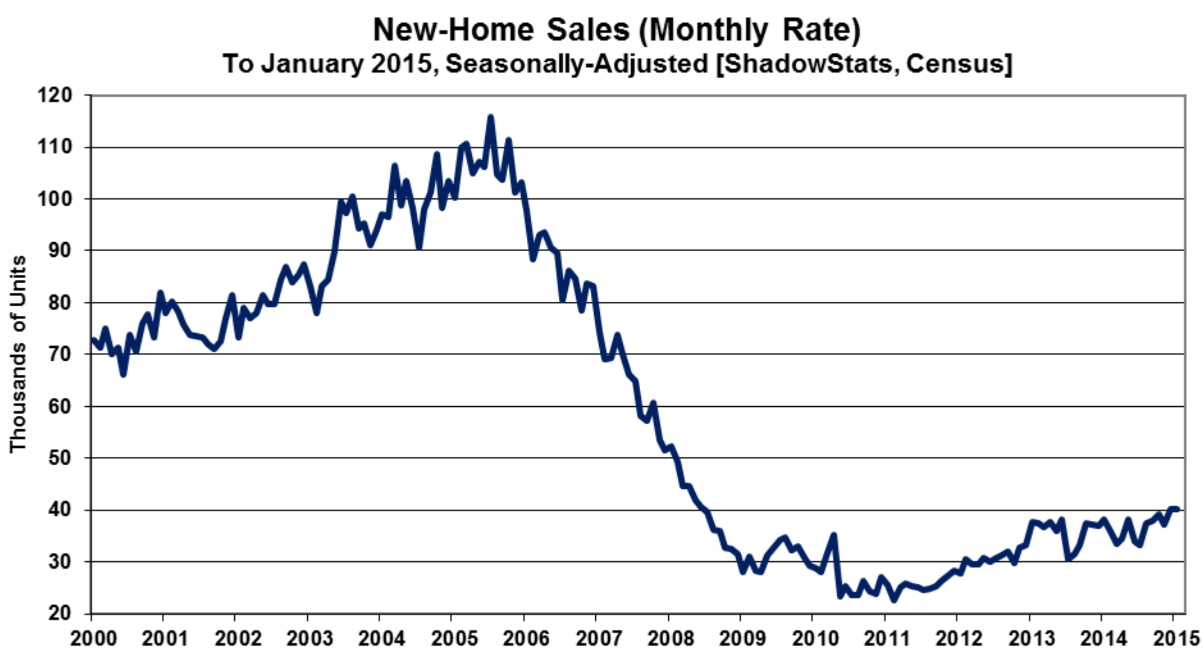
On a year-to-year basis, January 2015 sales increased by 3.2%, following a revised 4.3% gain in December 2014, and an unrevised 1.9% annual gain in November.

The headline January sales data remained well within the regular scope of reporting for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into a renewed downturn, as is becoming increasingly obvious in the accompanying graph. The quality of data for this series remains highly questionable.

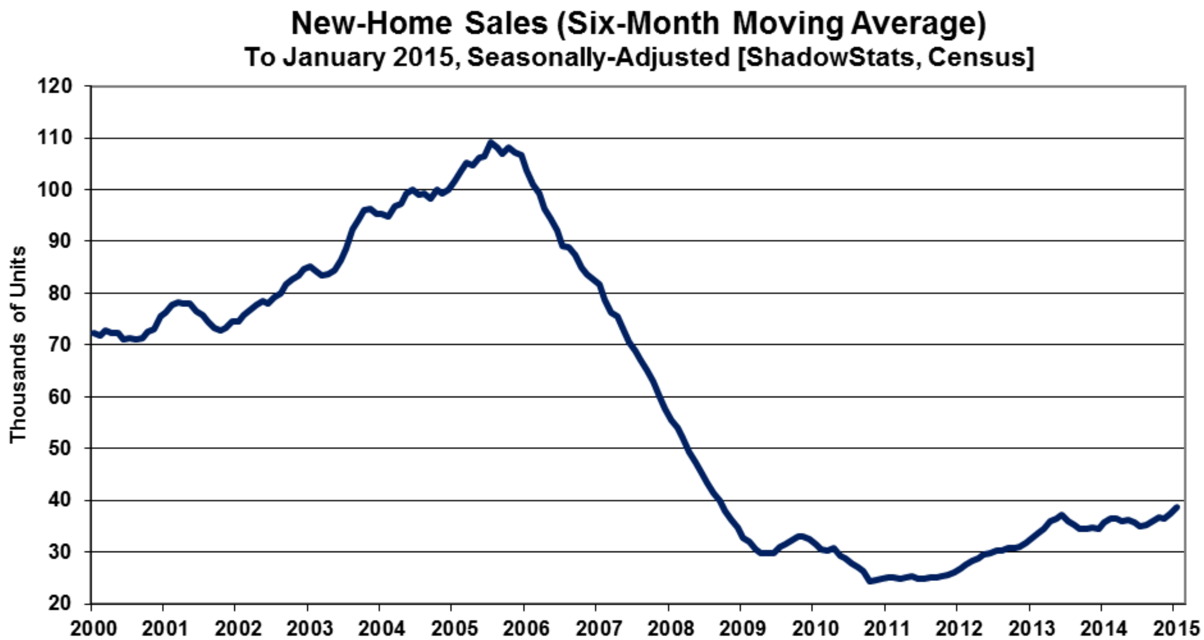
Steady Portion of Sales in Foreclosure. The NAR estimated that the portion of total January 2015 sales in "distress" held at 11% (8% foreclosures, 3% short sales) for the second month, identical with the distribution of the numbers in December 2014, but down from 15% (11% foreclosures, 4% short sales) in January 2014. Reflecting continuing lending problems, related banking-industry and consumer-solvency issues, discussed in the next section, and the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales activity in January 2015 were 27%, up from 26% in December 2014, but down from 33% in January 2014.

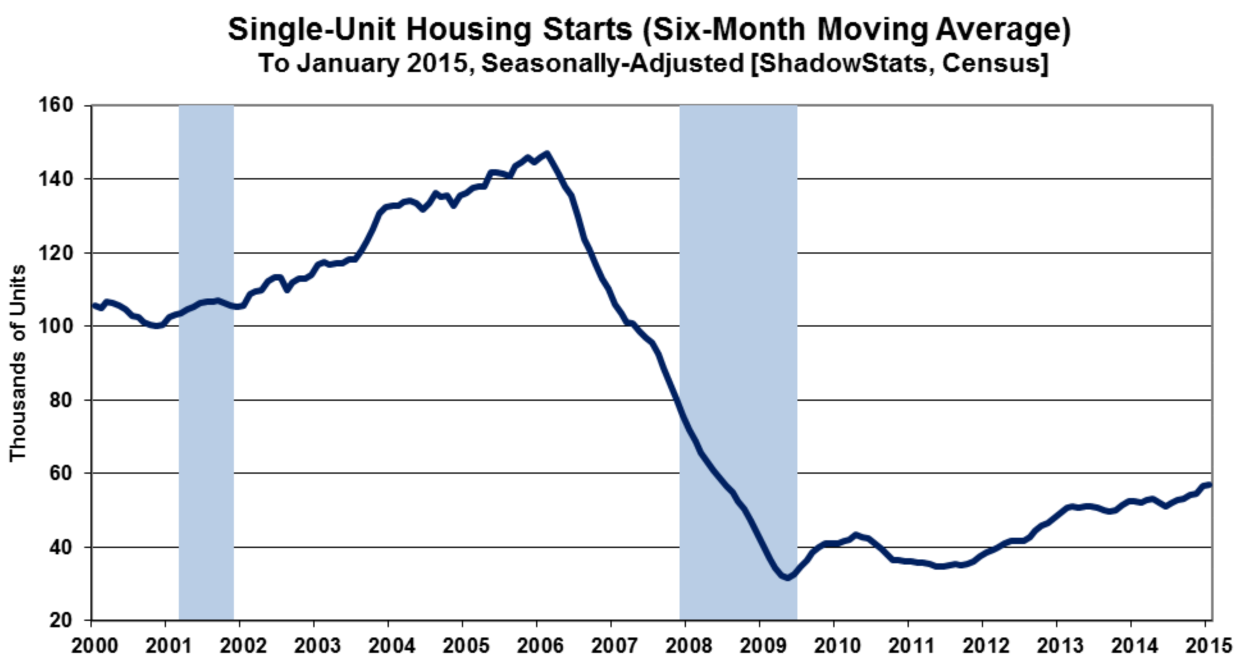
Comparative Graphs of New- and Existing-Home Sales and Single-Unit Housing Starts. Following are the regular monthly graphs of existing- and new-home sales activity. Existing-homes sales activity has fallen by 6.6% through January 2015, since hitting a near-term peak in October of 2014, and is at its lowest reading since April 2014.





New-home sales are shown both on a monthly rate (not annualized) basis, and on a six-month moving average of same, again, with both charts showing an ongoing low-level of stagnant activity. Further, the final graph in the section, for purposes of comparison, is the smoothed (six-month moving average of the non-annualized monthly rate) for January 2015 single-unit housing starts from *Commentary No. 697*. Activity in that series also is following a pattern of low-level stagnation.

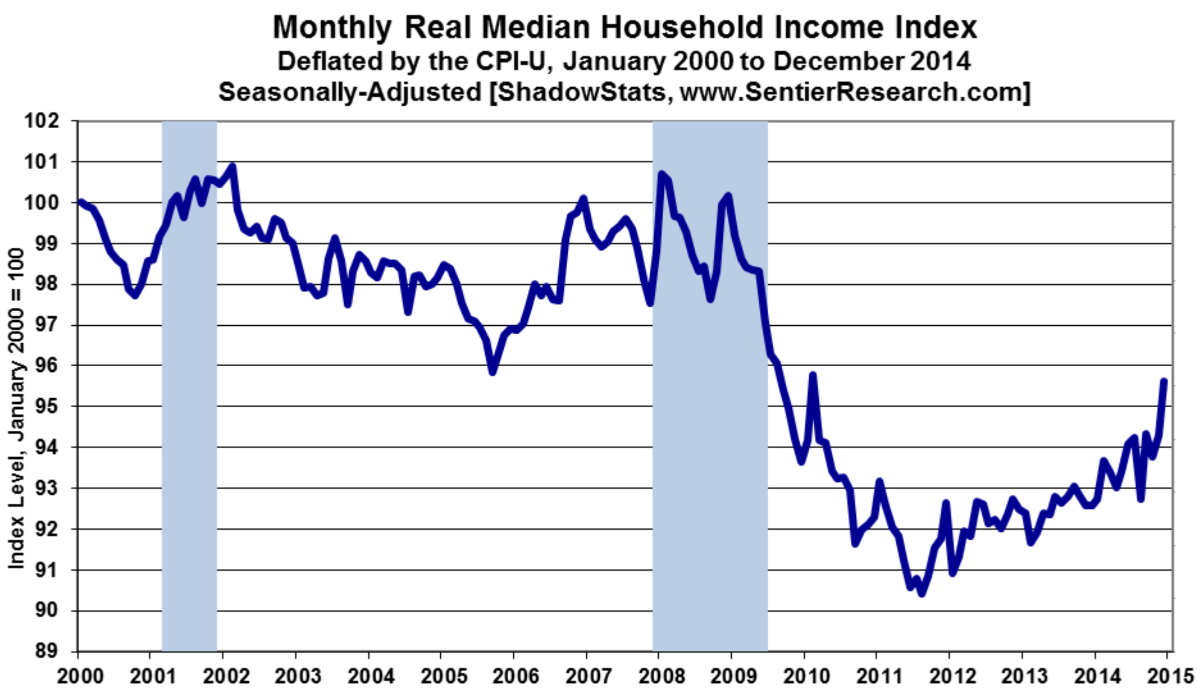




Normal Residential Real Estate Activity Awaits a Return to Normal Consumer Liquidity Conditions. Discussed regularly in these *Commentaries* and in some detail in *No. 692 Special Commentary: 2015 - A World Out of Balance*, without real (inflation-adjusted) growth in income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable economic growth. Impaired consumer liquidity and its direct restraints on consumption have dominated the last eight-plus years of economic turmoil, driving the housing-market collapse and ongoing stagnation in consumer-related real estate and construction activity, as well as constraining retail sales activity (see the *Real Retail Sales* section) and the related, dominant personal-consumption-expenditures category of the GDP. Those sectors account for more than 70% of GDP activity.

Updated here are the consumer-confidence and consumer-credit-outstanding detail, along with the most-recent consumer-sentiment and median household income series, published previously. Underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. There has been no economic recovery, and there remains no chance of meaningful, broad economic growth, without a fundamental upturn in consumer- and banking-liquidity conditions.

Consider the following charts. The first graph plots monthly real median household income through December 2014, as reported on January 26th, by www.SentierResearch.com. The release of the January 2015 number had been held, awaiting the release of today's CPI data, and its publication is pending. The series showed continued, low-level stagnation through December 2014, still remaining near its cycle low, despite some recent up-trending in month-to-month volatility, boosted by the gasoline-price-driven , headline month-to-month contractions of 0.3% (-0.3%) in November and 0.4% (-0.4%) in December 2014 headline CPI-U inflation used in deflating the income series. Subsequently, the December headline CPI contraction narrowed in revision to 0.3% (-0.3%). The up-trending likely continued in January 2015 real household income, given the extreme headline monthly contraction of 0.7% (-0.7%) just reported for the headline CPI-U. Those patterns will reverse in the months ahead, along with higher gasoline prices, a process that already is underway.

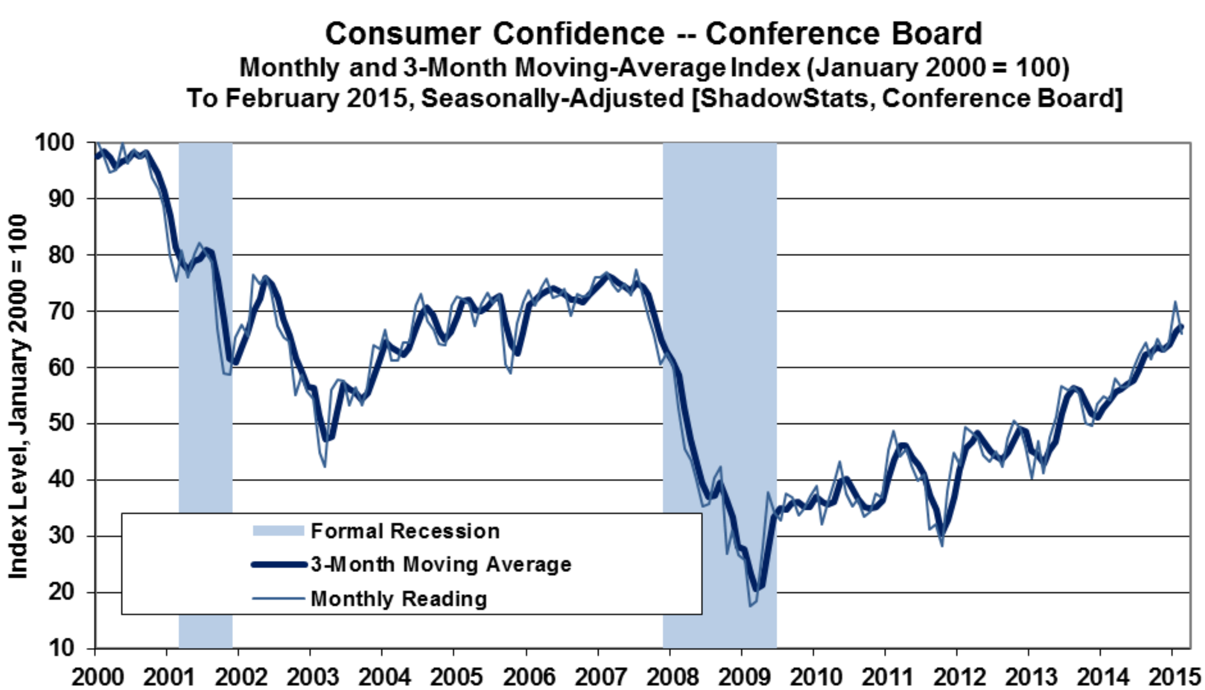


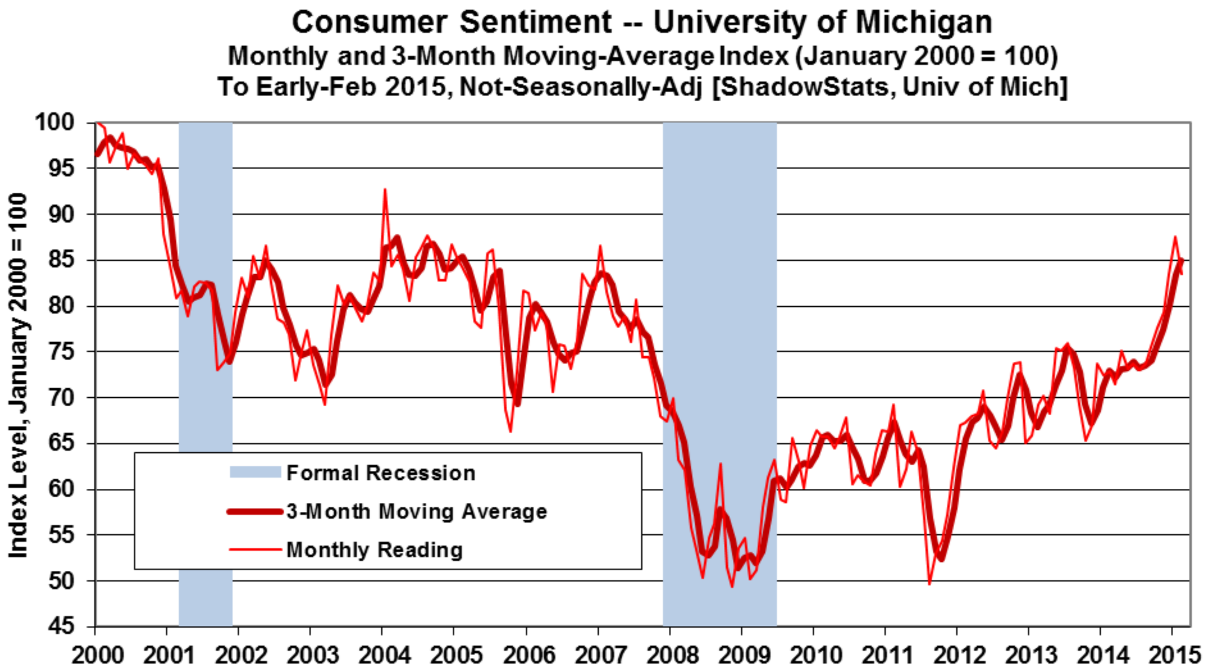
On a monthly basis, when headline GDP purportedly started its solid economic recovery in mid-2009, household income plunged to new lows and has yet to recover its recession or pre-recession highs either for the 2007 recession or the 2001 recession.

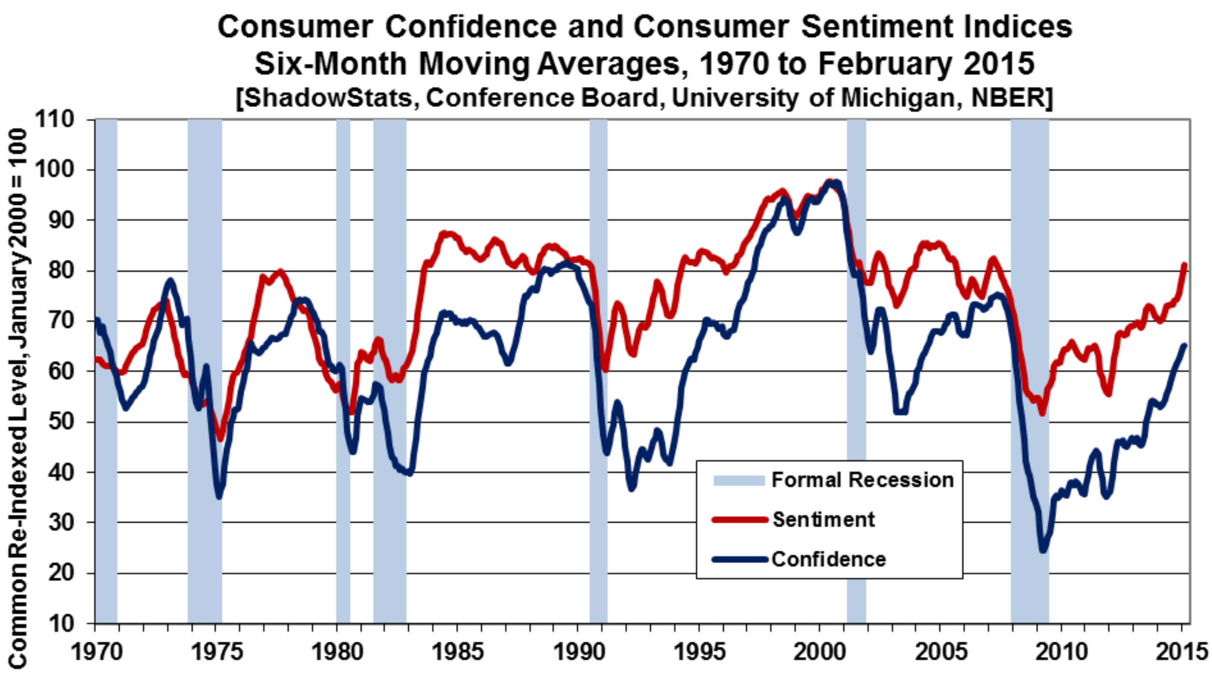
Separately, also deflated by headline CPI-U, the same series, as published by the Census Bureau on an annual basis, confirmed that 2013 annual real median household income continued to hold at a low level of activity. In historical perspective, 2011, 2012 and 2013 income levels were below levels seen in the late-1960s and early-1970s. Such indicates the long-term nature of the evolution of the major structural changes squeezing consumer liquidity and impairing the current economy. Further discussion and graphs of these issues are explored in the *No. 692 Special Commentary* and found in *Commentary No. 658*.

Shown in the next three graphs, both the Conference Board's Consumer Confidence Index, as updated through February 2015 on February 24th, and the University of Michigan's Consumer Sentiment Index through early February (the early-month measure is of limited surveying scope), recently have moved lower in the latest reporting. Both series jumped in headline, monthly reporting for January 2015, but both numbers pulled back with the February readings.

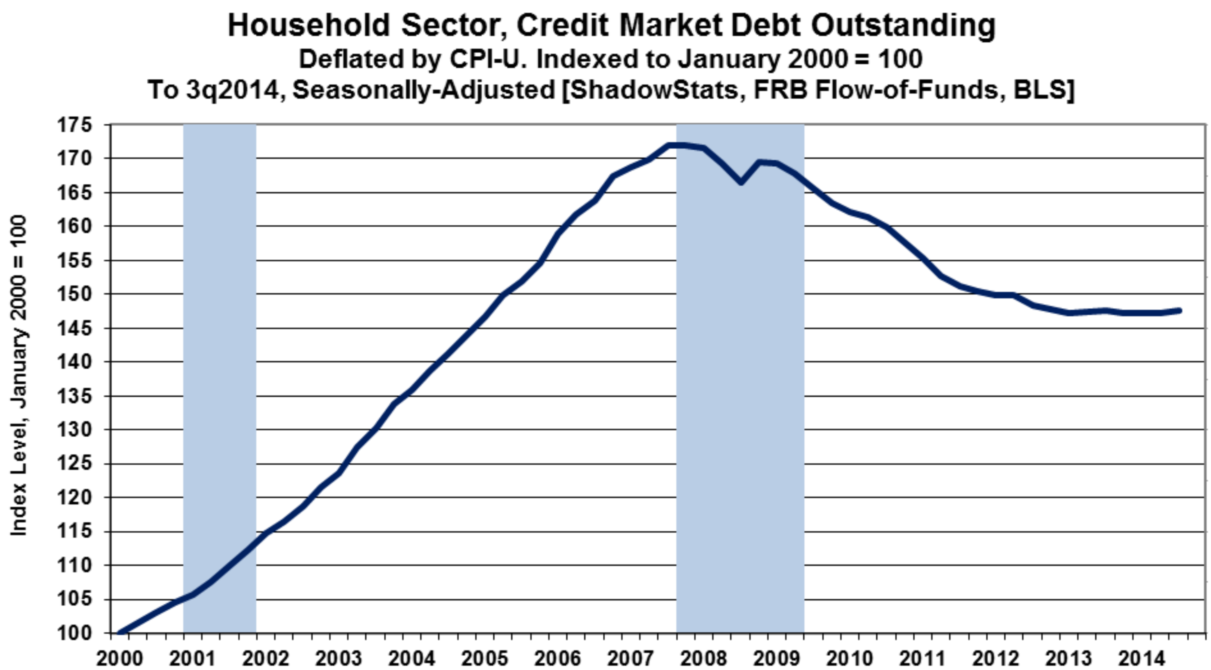
The confidence and sentiment series tend to mimic the tone of headline economic reporting in the press, and often are highly volatile month-to-month, as a result. Smoothed for irregular, short-term volatility, however, they still remain at levels seen typically in recessions. As suggested in the third graph following, as plotted for the last 40 years, the latest readings of confidence and sentiment have not recovered levels that preceded any of the formal recessions of the last 40 years, and generally remain well below, or are inconsistent with, periods of historically-strong economic growth that would rival recent booming, headline GDP gains.

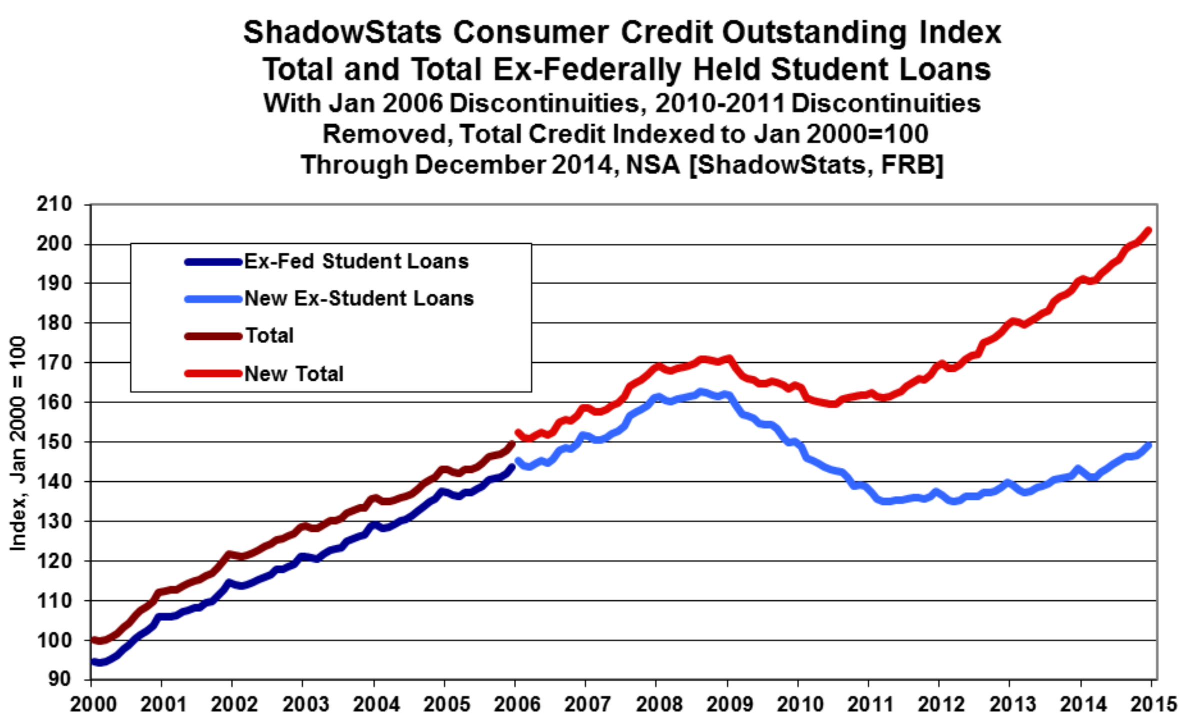






The final two graphs in this section address consumer borrowing. Debt expansion can help to make up for a shortfall in income growth. Shown in the first graph of *Household Sector, Real Credit Market Debt Outstanding*, household debt declined in the period following the Panic of 2008, and it has not recovered. The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., and is deflated by the headline CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting among other issues, the lack of normal lending by the banking system into the regular flow of commerce, as discussed, again, in the *No. 692 Special Commentary*.





The second graph shows the regular plot of nominal consumer credit outstanding, updated through December 2014. Post-2008 Panic, it 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. Before any consideration for inflation, the nominal level of consumer credit outstanding (ex-student loans) has not rebounded or recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis.

Again, without real growth in income and/or debt expansion, and with consumer confidence and sentiment at levels consistent with a significant portion of consumers under financial stress, there has been no basis for a sustainable economic expansion since the Panic of 2008, and there are no prospects for a recovery in the near future.

[Further details on the CPI-U, real retail sales and earnings, new orders for durable goods and new- and existing-home sales are found in the* Reporting Detail *section. Headline details on the CPI and new orders for durable goods, with various drill-down and graphics options, are available to subscribers at ShadowStats affiliate:* www.ExpliStats.com*.]

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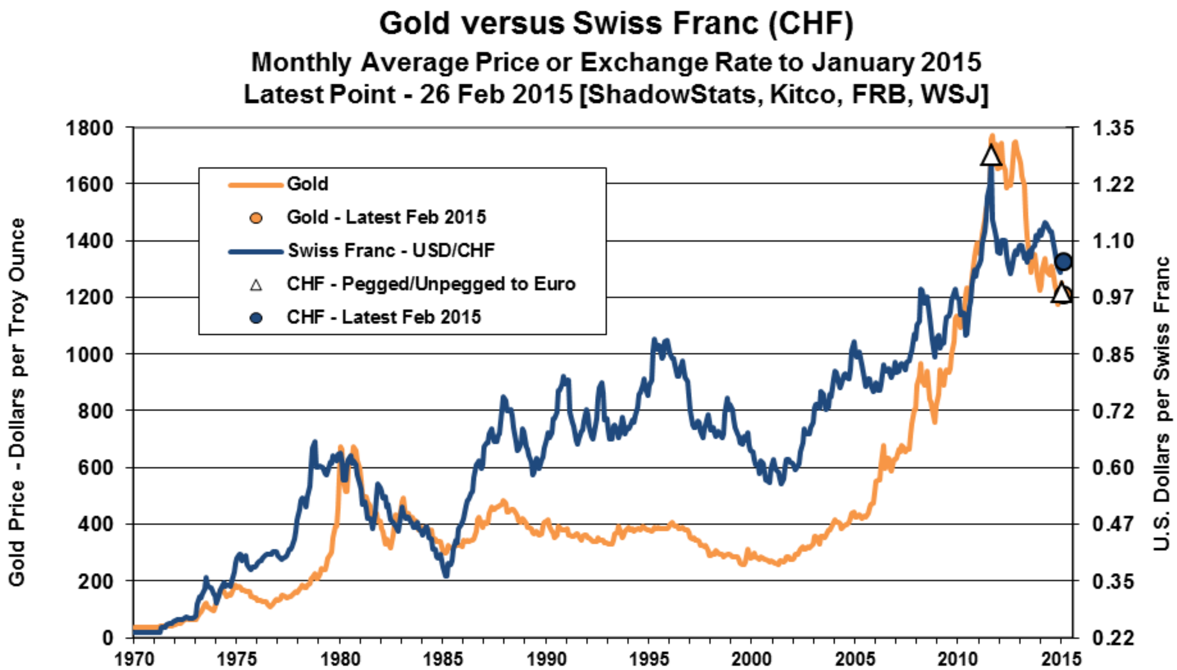
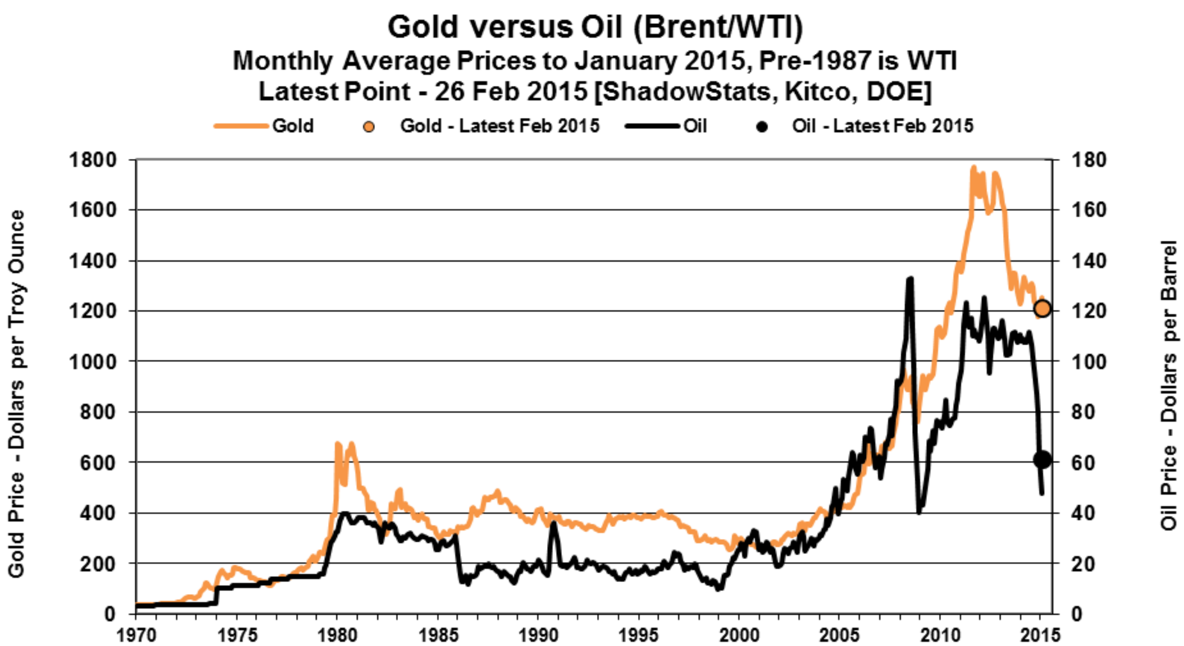
HYPERINFLATION WATCH

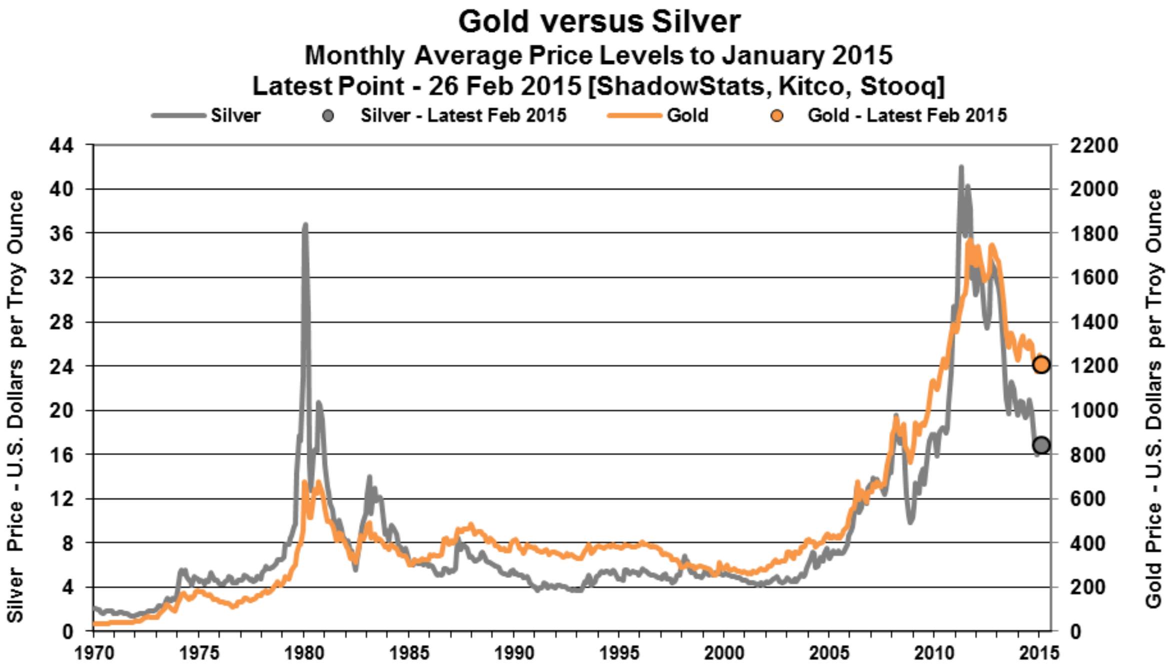
Hyperinflation Outlook Summary. Discussed in the *Opening Comments*, an updated *Hyperinflation Summary Outlook* based on the *Special Report (No. 692)* is a week off. In the interim, such a *Summary* is found in the *Opening Comments* of *No. 692*, with the prior version available in *Commentary No. 684*. The new *Summary* will be a distillation of those two relatively brief items.

Monthly Gold Graphs and Related Comments. The following three graphs are from the traditional gold graphs that accompany the CPI *Commentaries*. The plots are updated through today, February 26th, reflecting late-afternoon New York prices for the "Latest February" points in the graphs. These basic graphs also update the *Nominal Markets* section of the *No. 692 Special Commentary: 2015 - A World Out of Balance*. At such time as the U.S. dollar begins a broadly-based, massive sell-off, 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. Discussed extensively in *No. 692*, continuing strength in the exchange-rate value of the U.S. dollar against other major Western currencies had been and remains the primary distorting element in various financial markets. In the last month, however, the U.S. dollar strength may have begun to top out, particularly where there have been stories of intervention aimed at providing some dollar support. At the same time, oil prices appear to have bottomed out. Nonetheless, selling pressure on the precious metals has continued in the last several weeks. These developments are reflected in the accompanying graphs. Physical gold and silver remain the primary hedges against all the financial and inflationary crises ahead.



REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (January 2015)

Series Redefinition and Benchmark Revisions. The annual benchmark revision to CPI seasonal adjustments was released by the Bureau of Labor Statistics (BLS) on February 20th. Details and related graphs were covered in prior *Commentary No. 698* of that date. Revisions to more-recent headline data are repeated here.

Separately, today (February 26th) saw an overhaul of reporting for the CPI-U and C-CPI-U series, discussed in the *Opening Comments*. Noted in *Commentary No. 668*, BLS changes to the calculation of consumer inflation appeared designed to help set-up the C-CPI-U as an intensified, reduced-inflation measure. The new C-CPI-U is intended as a politically-practical inflation measure to meet the demands of those in Congress and the White House looking to reduce the cost-of-living-adjustment (COLA) for Social Security, etc., simply by defining away inflation as the average person looks at it (see these BLS links: CPI Changes, C-CPI-U Changes). The BLS has published no new background material on the changes, but ShadowStats will do, shortly, in an updated version of the *Public Comment on Inflation*.

Headline Inflation Tumbled in January, but Gasoline and Oil Prices Increased in February. Discussed regularly here, selling pressure on oil had continued—largely unabated since June 2014—tied to what appeared to be U.S.-orchestrated efforts to intensify financial stress on Russia. The circumstance was tied closely to the recent ongoing strength in the U.S. dollar. Oil and gasoline prices appear to have bottomed in February, and the U.S. dollar may be in a topping-out process, as well.

Accordingly, temporarily-depressed headline-inflation rates likely also are near bottom. These low inflation numbers have helped to boost, temporarily, the reporting of real, or inflation-adjusted, series, such as real average weekly earnings and real median household income. Where inflation growth is subtracted from the nominal, or not-inflation adjusted series, to create a real or inflation-adjusted series, the effect of negative inflation is to increase the pace of real growth.

Although the pace of annual inflation also has slowed with the decline in monthly oil prices, year-to-year inflation is not quite as soft as indicated by headline reporting, when considered in the context of traditional CPI reporting and common experience (see the *Opening Comments*).

Government Inflation Numbers Standardly Are Well Shy of Reality. 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 politically-orchestrated 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, as discussed generally in *No. 692 Special Commentary* and *2014 Hyperinflation Report—The End Game Begins – First Installment Revised*, high risk of a massive flight from the U.S. dollar in the months ahead 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.

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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 introduced changes to the C-CPI-U estimation process with the February 26, 2015 reporting of January 2015 inflation, aimed at finalizing the C-CPI-U estimates on a more-timely basis, and enhancing its ability to produce lower headline inflation than the traditional CPI-U.*

*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. In the context of annual benchmark revisions to monthly seasonal adjustments (see prior *Commentary No. 698*), the Bureau of Labor Statistics (BLS) reported this morning, February 26th, that headline, seasonally-adjusted January 2015 CPI-U declined month-to-month by 0.7% (-0.7%), down by 0.68% (-0.68%) at the second decimal point. That was against the December 2014 revised reading of a contraction of 0.3% (-0.3%), down by 0.33% (-0.33%) at the second decimal point [previously down by 0.4% (-0.4%), by 0.37% (-0.37%) at the second decimal point]. On a not-seasonally-adjusted basis, the January 2015 CPI-U fell by 0.47% (-0.47%) month-to-month, following a contraction of 0.57% (-0.57%) in December 2014.

The CPI revisions did not affect any unadjusted data, including the ShadowStats Alternate Inflation Measures. Where the BLS headlines only the single-decimal-point inflation rates, the seasonally-adjusted monthly CPI-U inflation changes for 2014 were revised up by 0.1% in January, unrevised in February and March, revised lower by 0.1% (-0.1%) in each of April, May and June, unrevised in July and August and November, and revised up by 0.1% in each of September October and December.

Monthly Gasoline Prices. The BLS used a 17.13% (-17.13%) headline monthly decline in not-seasonally-adjusted gasoline prices for January 2015, where a 16.11% (-16.11%) decline was indicated by the industry-based surveying of the Department of Energy. Generally in line with the prior-year's seasonal-adjustments to gasoline prices, the unadjusted 17.1% (-17.1%) price drop ended up as a seasonally-adjusted monthly decline of 18.7% (-18.7%) in January 2015.

Major CPI-U Groups. Encompassed by the seasonally-adjusted decline of 0.68% (-0.68%) in January 2015 CPI-U [down by an unadjusted 0.47% (-0.47%)], aggregate January energy inflation was down for the month by an adjusted 9.70% (-9.70%) [down by an unadjusted 8.18% (-8.18%)]. In the other major CPI sectors, adjusted food inflation was down by 0.06% (-0.06%) for the month [up by 0.21% unadjusted], while adjusted "core" inflation was up by 0.18% [up by 0.20% unadjusted] for the month.

Core CPI-U. Separately, Core CPI-U inflation showed unadjusted year-to-year inflation of 1.65% in January 2015, versus 1.61% in December 2014.

Revised Quarter-to-Quarter CPI-U. Annualized-quarterly CPI-U inflation rates for 2014 were revised to gains of 2.09% (previously 1.91%) in first-quarter 2014, 2.44% (previously 3.03%) in the second-quarter, 1.18% (previously 1.10%) in the third-quarter, with a revised, annualized fourth-quarter contraction of 0.85% (-0.85%), which previously had been down by 1.20% (-1.20%).

Year-to-Year CPI-U. Not seasonally adjusted, January 2015 year-to-year inflation for the CPI-U was a headline decline of 0.1% (-0.1%), down by 0.09% (-0.09%) at the second decimal point, versus a gain of 0.8% (0.76% at the second decimal point) in December 2014.

Year-to-year, CPI-U inflation would increase or decrease in next month’s February 2015 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.10% monthly inflation gain reported for February 2014. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for February 2015, the difference in February’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the January 2015 negative annual inflation rate of 0.09% (-0.09%).

CPI-W. The January 2015 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, fell by 0.93% (-0.93%), versus a revised decline of 0.47% (-0.47%) [previously down by 0.51% (-0.51%)] in December.

Year-to-Year CPI-W. Unadjusted, January 2015 year-to-year CPI-W inflation fell by 0.76% (-0.76%), versus an annual gain of 0.32% in December 2014.

Chained-CPI-U. Initial reporting of unadjusted year-to-year inflation for the January 2015 C-CPI-U was an annual decline of 0.59% (-0.59%), versus a revised annual gain of 0.49% (previously up by 0.24%) in December 2014.

See the opening notes in this *CPI Section* about the changes to C-CPI-U reporting. There will be regular quarterly revisions to the series, going forward, where today's release finalized the reporting of the C-CPI-U for first-quarter 2014.

Alternate Consumer Inflation Measures. Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 3.5% in January 2015, versus 4.3% in December 2014.

The January 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 7.5% (7.50% for those using a second decimal point) year-to-year in January 2015, versus 8.4% in December 2014.

[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 *[to be updated] for further details.)*

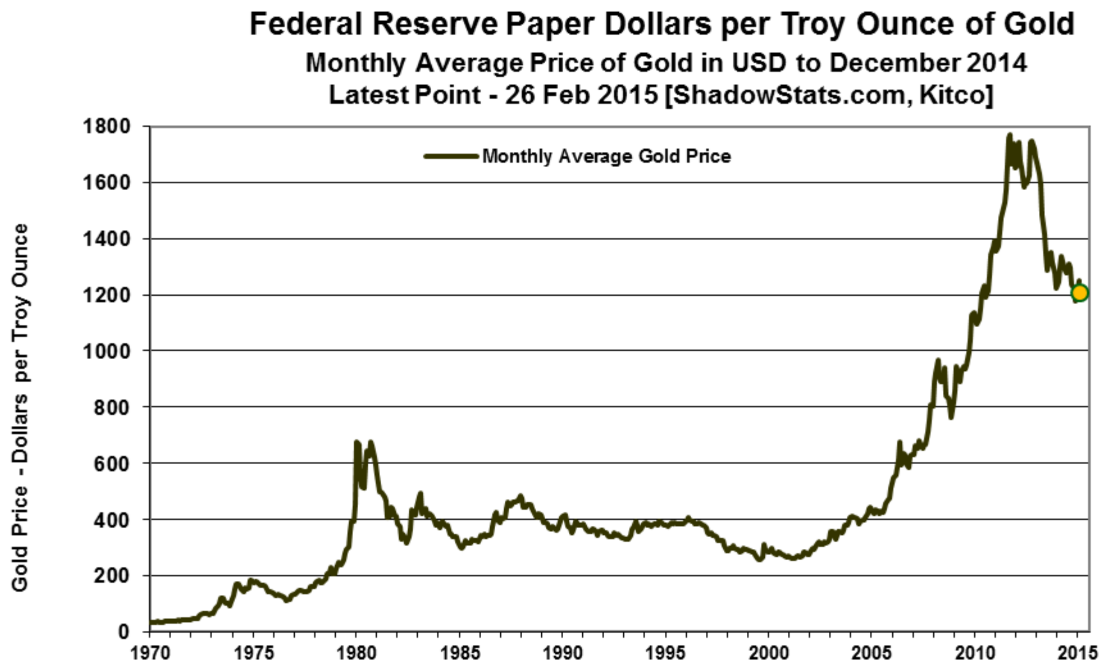
Gold and Silver Historic High Prices Adjusted for January 2015 CPI-U/ShadowStats Inflation—

CPI-U: GOLD at $2,553 per Troy Ounce, SILVER at $149 per Troy Ounce
ShadowStats: GOLD at $11,396 per Troy Ounce, SILVER at $663 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 $2,553 per troy ounce, based on January 2015 CPI-U-adjusted dollars, and $11,396 per troy ounce, based on January 2015 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 January 2015 CPI-U inflation, the 1980 silver-price peak would be $149 per troy ounce and would be $663 per troy ounce in terms of January 2015 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—January 2015—First-Quarter 2015 Looks Like a Contraction, Despite Negative Inflation. In nominal terms, before adjustment for inflation, headline monthly retail sales declined by a statistically-significant, seasonally-adjusted 0.79% (-0.79%) in January 2015, having declined by a revised 0.86% (-0.86%) [previously down by 0.94% (-0.94%)] in December 2014, as discussed in *Commentary No. 696*.

Noted in *Commentary No. 698*, covering the benchmark seasonal-adjustment revisions to the CPI-U series, upside (less-negative) revisions to headline monthly inflation for December 2014, and headline quarterly inflation for fourth-quarter 2014, had the effect of dampening previously-estimated real growth for recent headline retail sales activity.

Headline Reporting of Real Retail Sales. Based on today's (February 26th) reporting of a headline monthly decline of 0.09% (-0.09%) in the January 2015 CPI-U, and in the context of a revised headline decline of 0.33% (-0.33%) [previously down by 0.37% (-0.37%)] in the December CPI-U, real retail sales declined by a headline 0.11% (-0.11%) in January 2015, versus a revised headline December 2014 monthly real retail sales drop of 0.54% (-0.54%).

In terms of annualized quarter-to-quarter growth, real retail sales in fourth-quarter 2014 were up by a revised 2.76% (previously 3.01%) versus the third-quarter. In turn, third-quarter annualized growth was revised to 3.05% (previously 3.14%). The first-quarter 2015, based solely on January reporting, is on track for a real, annualized quarterly contraction of 0.93% (-0.93%). In nominal terms, before inflation adjustment, first-quarter 2015 is on track to contract at a 4.81% (-4.81%) annualized pace.

The last time real retail sales contracted on a quarterly basis was in first-quarter 2014, down by an annualized 0.70% (-0.70%). With positive inflation at that time, nominal first-quarter 2014 retail sales rose at an annualized pace of 1.37%. Nonetheless, headline real GDP also last contracted in first-quarter 2014, mirroring the real retail sales activity.

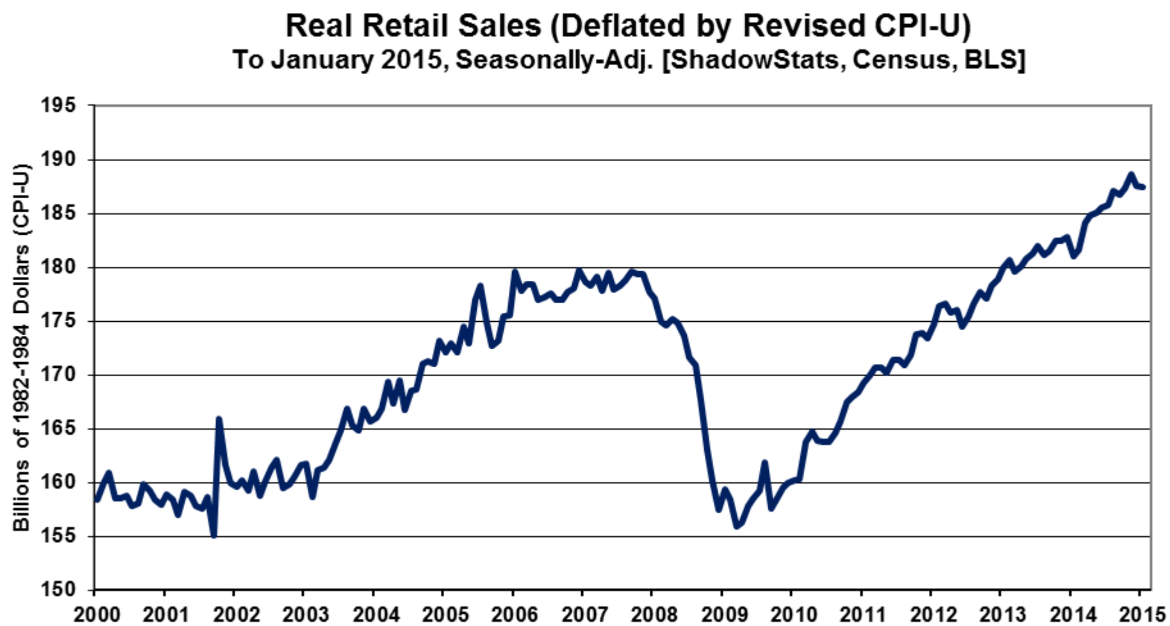
Perversely, while headline CPI-U year-to-year inflation (always on a not-seasonally-adjusted basis) declined by 0.09% (-0.09%), year-to-year seasonally-adjusted CPI-U was down by 0.19% (0.19%), reflecting distorted seasonal factors. That said, it is the adjusted year-to-year change used in deflating retail sales, given the nature of the retail sales series (best viewed seasonally-adjusted).

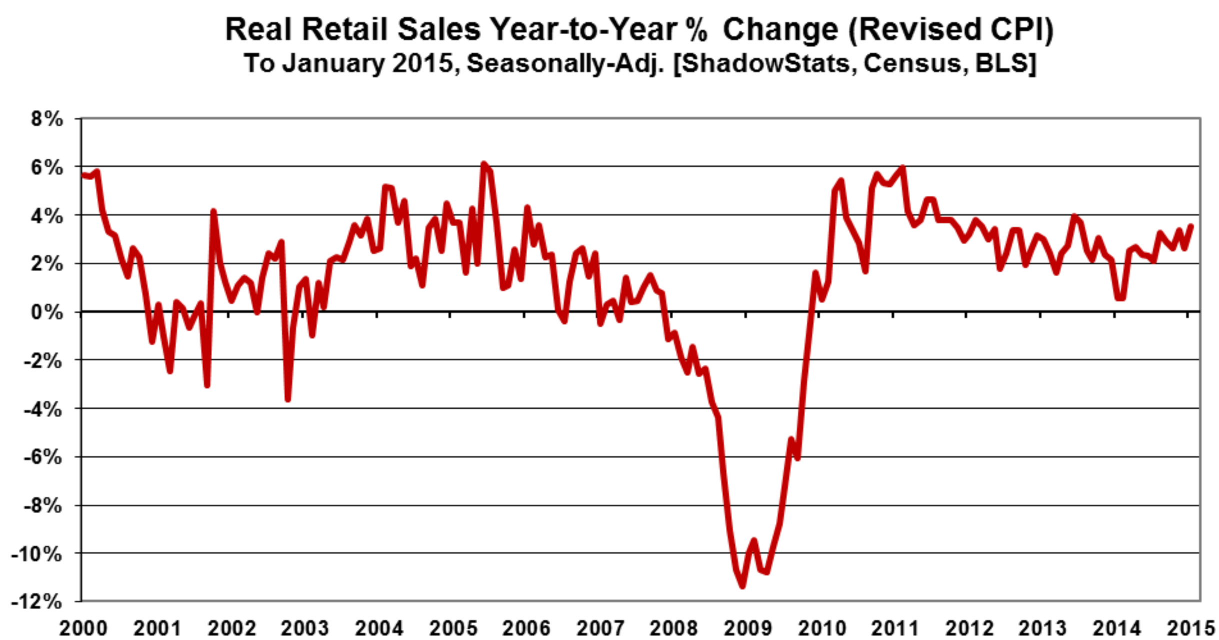
Accordingly, year-to-year change in January 2015 retail rose to 3.53%, versus a revised December 2014 real retail sales annual gain of 2.65% (previously 2.49%). In normal economic times, annual real growth at or below 2.0% would signal an imminent recession. That signal had been given recently; a signal that still is in play and likely will serve as an indicator of renewed downturn in broad economic activity. Annual real growth in retail sales is plotted in both the second and fourth graphs following.

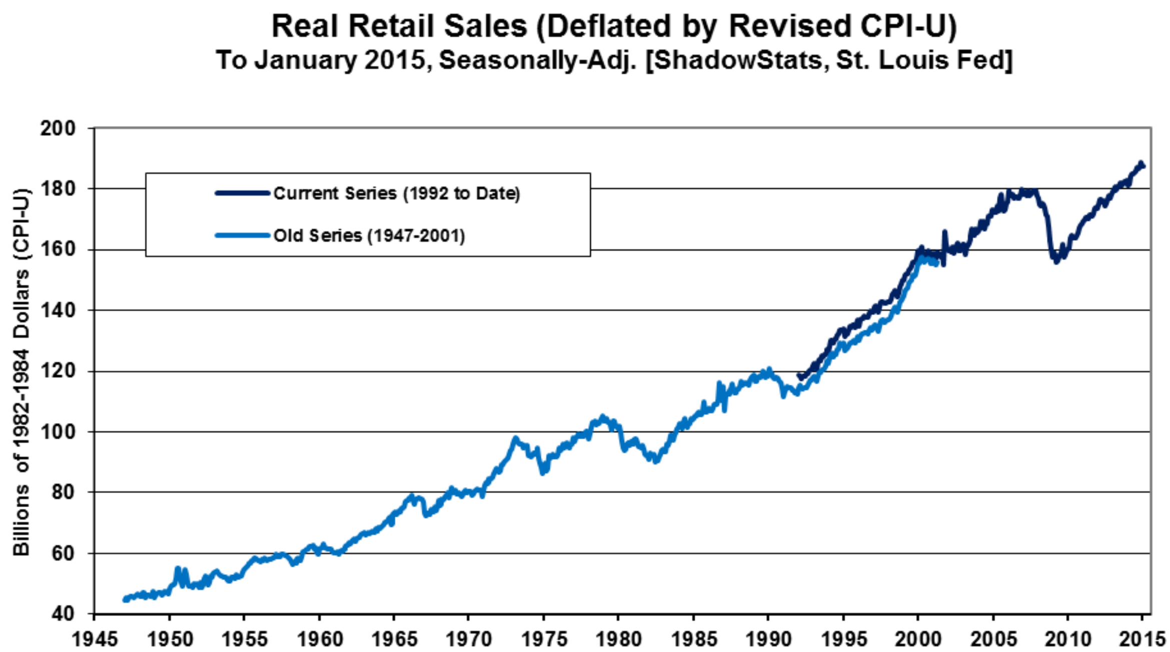
Separately, as detailed in the *Opening Comments* and in *No. 692 Special Commentary: 2015 - A World Out of Balance*, during the last six-plus years of economic collapse and stagnation, consumer buying of goods and services has been constrained by the intense, structural-liquidity woes besetting the consumer.

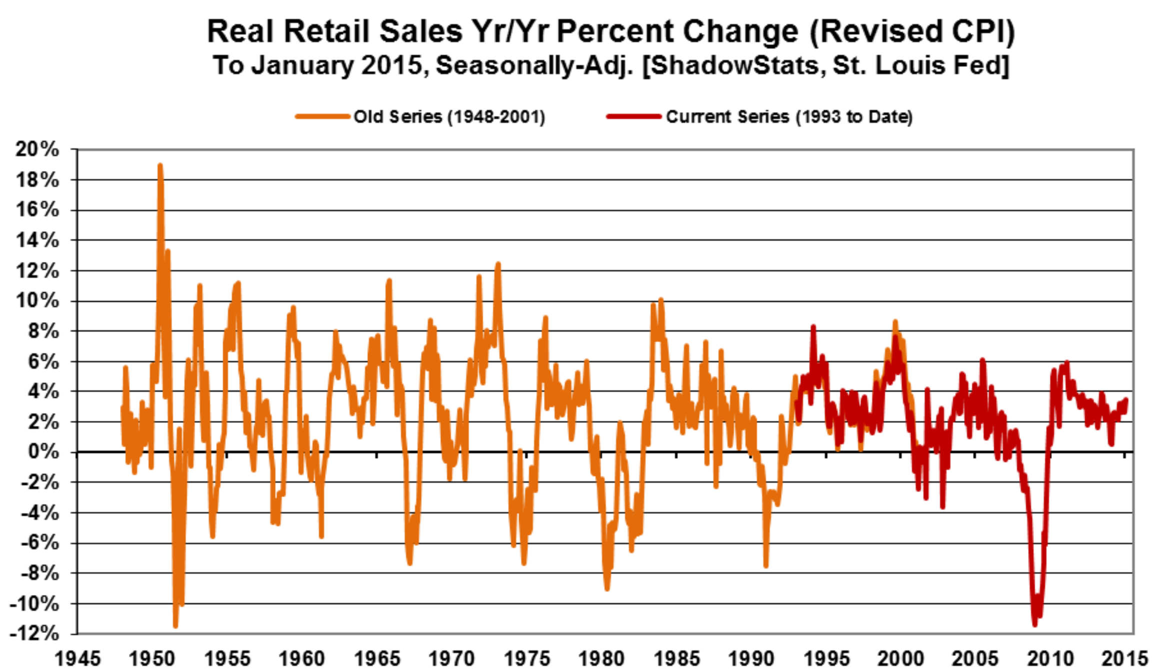
As official consumer inflation resumes its upturn in the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by the general pattern of real earnings difficulties seen in the next section—these data should continue to trend meaningfully lower, in what should gain recognition as a formal new or double-dip recession.

Real 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 headline monthly activity turned lower for the second month, showing signs of faltering sales. Year-to-year activity, which had plunged to a near-standstill in January and February 2014, had bounced back irregularly, hitting its high level for 2014 in November 2014, but it fell back towards two-percent in December, bouncing higher with negative inflation numbers in play in January. 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 Revised CPI-U)
To January 2015, Seasonally-Adj. [ShadowStats, Census, BLS]
Billions of 1982-1984 Dollars (CPI-U)
195
190
185
180
175
170
165
160
155
150
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015


Real Retail Sales Year-to-Year % Change (Revised CPI)
To January 2015, Seasonally-Adj. [ShadowStats, Census, BLS]
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015





Irrespective of near-term reporting weakness, 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 the understated inflation reporting of the CPI-U, the recent pattern of real sales activity has turned increasingly negative. The corrected graph shows that the post-2009 period of protracted stagnation ended, and a period of renewed and extended 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.

Real (Inflation-Adjusted) Average Weekly Earnings—January 2015—Flat in Nominal Terms, Real Earnings Jumped Solely Due to Negative Inflation. Coincident with today's (February 26th) reporting of a headline decline monthly of 0.93% (-0.93%) in the January 2015 CPI-W, and in the context of annual benchmark revisions to the inflation seasonal-adjustments and to the underlying earnings series, the BLS published real average weekly earnings for the month of January 2015 (deflated by CPI-W). Again, on a seasonally-adjusted basis, headline monthly CPI-W declined by 0.93% (-0.93%) in January, following a revised headline decline of 0.47% (-0.47%) [previously down by 0.51% (-0.51%)] in December.

In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings, rose by 0.98% in January 2015, and by a revised 0.58% [previously 0.51%] in December 2014. For both months, average weekly earnings basically were unchanged before consideration for inflation. Nearly all the headline monthly growth in real earnings in the last two months has been due to the sharp decline in headline inflation, which has been driven lower by collapsing gasoline prices.

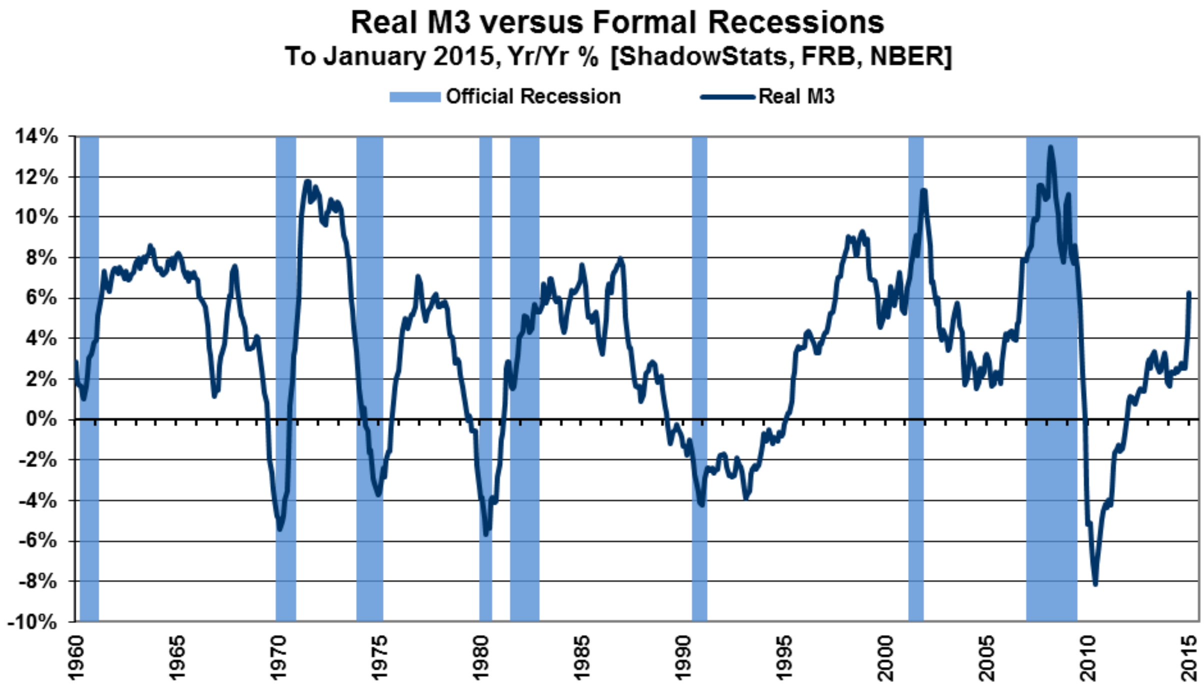
Year-to-year and seasonally-adjusted, January 2015 real average weekly earnings jumped to 3.80%, versus a revised 2.59% (previously 2.61%) gain in December. Both the monthly and annual fluctuations in this series are irregular, but current reporting remains well within the normal bounds of volatility, with the exception of the unusual inflation patterns.

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.

That said, the sharp decline in headline inflation has generated a temporary, but visible spike in real-earnings level, both in the headline and ShadowStats series for the last several months.

Real (Inflation-Adjusted) Money Supply M3—January 2015. 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 rallying in positive territory. As shown in the accompanying graph—based on January 2015 CPI-U reporting and the latest ShadowStats-Ongoing M3

Estimate—annual inflation-adjusted growth in M3 for January 2015 jumped to 6.3%, from a revised 4.3% (previously 4.4%) in December 2014. The 2.0% relative increase in January 2015 annual growth reflected a 0.4% pick-up in the pace of annual headline M3 growth plus a negative swing of 1.6% (-1.6%) 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 in recent 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*, as well as the *No. 692 Special Commentary: 2015 - A World Out of Balance*.

NEW ORDERS FOR DURABLE GOODS (January 2015)

Second, Consecutive Quarter-to-Quarter Contraction Begins to Unfold for New Orders. Allowing for sharp swings in low levels of commercial aircraft orders, January 2015 new orders for durable goods fell for the third month and set the stage for back-to-back quarterly downturns in new orders.

Annualized quarterly growth in inflation-adjusted (real) terms, new orders—ex-commercial aircraft—contracted in fourth-quarter 2014 at a revised annualized pace of 5.6% (-5.6%) [previously down by 5.9% (-5.9%)], where real growth had slowed sharply in third-quarter 2014 to 4.3%, from a 14.9% gain in second-quarter 2014. Based only on January 2015 reporting, first-quarter 2015 is on track for an annualized real contraction of 4.5% (-4.5%).

The ex-commercial aircraft number is the one to look at as an indicator of pending, broad economic activity, due to the extreme and irregular nature of the volume of aircraft orders, as well as the limited impact of those orders on near-term economic activity. Consider that including the aircraft orders, real fourth-quarter total durable goods orders fell at an annualized quarterly pace of 34.3% (-34.3%), having risen at a 39.5% annualized pace in the third-quarter. Based only on January 2015 reporting, real first-quarter 2015 total orders are on track for an annualized 1.9% contraction.

Activity in aggregate new orders for durable goods is irregularly volatile**,** usually due to the extreme and unstable patterns in nondefense- or commercial-aircraft orders. Even so, related commercial-aircraft order swings in July and August 2014 (third quarter) reporting were the most-extreme events of recent years, up by 315.6%, and down by 74.0% (-74.0%) respectively. They were followed by a smaller commercial-aircraft order decline in September of 16.0% (-16.0%), a revised, negligible order gain of 0.8% in October, a unrevised decline of 11.0% (-11.0%) in November, a revised December decline of 58.3% (-58.3%) [previously down by 55.5% (-55.5%)], and today's headline January 2015 monthly gain of 128.5%.

Both before and after consideration of volatility in commercial-aircraft orders, headline January durable goods orders remained well within the normal reporting variations of this highly unstable series, consistent with a pattern of stagnation. The inflation-adjusted real series, and that same series corrected for understatement of the official inflation series, also are discussed and graphed in the *Opening Comments* section. They remain broadly stagnant with a developing downtrend of a nature that commonly precedes or coincides with a recession or deepening business downturn.

Nominal (Not-Adjusted-for-Inflation) January 2015 Reporting. The Census Bureau reported today, February 26th, that the regularly-volatile, seasonally-adjusted, nominal level of January 2015 new orders for durable goods gained 2.83%, following a revised decline of 3.74% (-3.74%) [previously down by 3.41% (-3.41%)] in December, and a revised November decline of 2.15% (-2.15%) [previously down by 2.12% (-2.12%), initially down by 0.68% (-0.68%)]. Net of prior-period revisions, aggregate new orders for January gained by 2.44% versus December, instead of the headline 2.83%.

Year-to-year and seasonally-adjusted growth in January 2015 durable goods orders rose by 5.42%, versus revised annual contraction of 0.07% (-0.07%) [previously a 0.31% gain] in December, versus a revised decline of 1.19% (-1.19%) [previously down by 1.15% (-1.15%), initially a gain of 0.35%] in November.

Detail Net of Volatility in Commercial Aircraft Orders. The reporting of extreme contractions and surges in commercial aircraft orders is seen commonly in an irregularly-repeating process throughout the year and often dominates the changes in headline monthly durable goods orders. These extremely volatile aircraft orders are booked years into the future and are indicative more of longer-term, rather than shorter-term prospects for manufacturing activity.

Net of a headline monthly gain of 128.50% in January 2015 commercial aircraft orders, aggregate orders declined by 0.38% (-0.38%). Net of revised decline of 58.33% (-58.33%) [previously down by for the month by 55.51% (-55.51%)] in December orders, aggregate orders fell by 0.41% (-0.41%) [previously down by 0.24% (-0.24%)] for the month. Net of an unrevised November decline of 11.03% (-11.03%) [initially a gain of 0.58%] in aircraft orders, aggregate orders fell by a revised 1.55% (-1.55%) [previously down by 1.52% (-1.52%), initially down by 0.76% (-0.76%)] in the month.

Caution: Current durable goods reporting remains subject to many of the same sampling and concurrent-seasonal-adjustment problems seen with retail sales, payroll and unemployment reporting. Unusual seasonal-factor volatility raises issues as to the significance of reported seasonally-adjusted monthly and annual changes. While those issues are brought into balance, temporarily, with an annual benchmark revision to durable goods orders—last seen on May 15, 2014—subsequent reporting already has made all historical reporting prior to November 2014 inconsistent with the current headline numbers. The next benchmark, scheduled for March 14, 2015, will be a major one, updating and recasting historical new orders activity back to January 1997.

Real (Inflation-Adjusted) Durable Goods Orders—January 2015. ShadowStats uses the PPI aggregated inflation measure "Durable Manufactured Goods" for deflating the new orders for durable goods series. Published only on a not-seasonally-adjusted basis, the related PPI series reflected a headline "unchanged" pace of inflation in January 2015, for a second month, the same as in December 2014, with headline annual inflation at 0.72% in January 2015, versus 1.09% in December 2014.

Adjusted for that inflation, and again as reflected in the graphs of the *Opening Comments* section, real month-to-month aggregate orders roses by 2.83% in January 2015, following a decline of 3.74% (-3.74%) in December, and a drop of 2.09% (-2.09%) in November. Ex-commercial aircraft, real orders fell by 0.38% (0.38%) month-to-month in January 2015, following 0.41% (-0.41%) decline in December, and a decline of 1.49% (-1.49%) in November.

Real year-to-year aggregate orders rose by 4.66% in January 2015, following a decline of 1.14% (-1.14%) in December 2014, and an annual decline of 2.31% (-2.31%) in November. Ex-commercial aircraft, orders rose year-to-year by 2.87% in January 1015, following a 13.41% gain in December 2014, and gain of 1.78% in November. The surge in December year-to-year growth was against an unusually-sharp drop in defense orders in December 2013.

Graphs of Inflation-Adjusted and "Corrected" Smoothed Durable Goods Orders. Three sets of inflation-adjusted graphs are found in the *Opening Comments* section. The first set shows the monthly as well as a six-month moving-average activity for both the aggregate new orders series and the series net of the unstable commercial-aircraft order sector. The moving-average levels in both series had been holding in a pattern of near-stagnation, with some recent downturn prior to the extreme movements in July and August of 2014. Please note that due to the extreme July 2014 number, the six-month moving average for the aggregate series had been showing a large upside bump, which just worked its way out of the system.

The second and third sets of graphs in the *Opening Comments* section show the patterns of historical real new durable goods orders net of official inflation, as well as those patterns "corrected" for the understatement of that inflation (overstatement of official, inflation-adjusted growth), for the aggregate series and net of commercial aircraft orders.

NEW-HOME SALES (January 2015)

Unstable Headline Reporting Showed Ongoing, Low-Level Sales Stagnation. Although January 2015 headline monthly new-home sales fell by just 0.2%, the 95% confidence interval around that headline change was plus-or-minus 26.1%. Annual sales gained by 5.3%, plus-or-minus 25.9%. These numbers remain nonsense. The Census Bureau still cannot give a meaningful estimate as to whether or not new-home sales rose or fell, in aggregate, for all of 2014.

The approach here in assessing these otherwise worthless headline monthly numbers and related housing-starts data—on a somewhat-meaningful basis—is to consider the monthly gyrations in the context of a six-month moving average of headline activity. Such is plotted in the *Opening Comments*, along with the headline monthly detail for new-home sales.

Graphed either way, the various housing series continued to show a pattern of economic activity plunging from 2005 or 2006 into 2009, and then stagnation, with the stagnation continuing at a low level of activity to date. Housing never recovered with the purported GDP reporting. Headline January 2015 new-home sales activity still was down by 64.8% (-64.8%) from the pre-recession peak of July 2005, while January 2015 single-unit housing starts were down by 62.8% (-62.8%) from the January 2006 high of that series. As discussed further in the *Opening Comments*, there has been no underlying improvement in fundamental consumer liquidity conditions. Correspondingly, there has not been a basis here for a recovery in the housing market, past, present or pending.

Longer-Term Pattern of New-Home Sales Was Consistent With Ongoing Stagnation. As reported by the Census Bureau on February 25th, in the context of a minimal upside revision to December 2014, January 2015 headline new-home sales (counted based on contract signings) fell by a statistically-insignificant 0.2% (-0.2%) +/-26.1%. That followed a downwardly revised monthly gain of 8.1% (previously up by 11.6%) in December (the revision was due largely to an upside revision to November sales). Net of prior-period revisions, January 2015 sales were unchanged for the month, instead of the headline 0.2% (-0.2%) decline.

Year-to-year, January 2015 sales rose by a statistically-insignificant 5.3% +/- 25.9%, following a revised 9.0% (previously 8.8%) gain in December.

New-Home Sales Graphs. The regular monthly graph of new-home sales activity is included in the *Opening Comments* section, along with a six-month moving average version of those sales. The six-month moving-average version of January 2015 housing starts for single-unit construction (*Commentary No. 697*), and January 2015 existing-home sales, all are included for comparison.

EXISTING-HOME SALES (January 2015)

Existing Home Sales Stumbled in January, Despite Favorable Seasonal-Factor Readjustments. Along with the headline reporting of January 2015 existing-home sales, the National Association of Realtors published its annual revisions to seasonal adjustment factors for the last three years. The effect was to shift growth from the May-to-October period, to the November-to-April, enhancing reporting for recent months and the current headline month-to-month growth rate.

As a result of December's headline reporting, fourth-quarter 2014 sales had contracted at an annualized pace of 4.1% (-4.1%), versus third-quarter 2013. Now, that quarterly growth pattern is flat, thanks solely to shifting seasonal adjustments, not to any meaningful historical change in actual underlying sales activity.

Despite the shifted seasonals, monthly growth for January 2015 took a tumble. Although year-to-year growth remained positive, the trailing twelve months of activity still was below the year-ago period by 0.17%, and January 2015 sales were at their weakest level since April of 2014. As graphed in the *Opening Comments* section, that translates into existing-homes sales activity haven fallen off by 6.6%, through January 2015, since hitting a near-term activity peak in October of 2014.

The January 2015 headline annual sales pace of 4,820,000 (an average monthly pace of 401,667) also remained down by 33.7% (-33.7%) from the June 2005 pre-recession peak in sales.

Headline Detail for January Existing-Home Sales. In the context of the annual revision to the seasonal-adjustment factors, the February 24th release of January 2015 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted headline monthly decline of 4.9% (-4.9%), following an unrevised monthly gain of 2.4% in December, and a revised decline of 4.1% (-4.1%) [previously down by 6.3% (-6.3%), initially down by 6.1% (6.1%)] in November. Net of prior-period revisions, the January decline was 4.4% (-4.4%).

On a year-to-year basis, January 2015 sales increased by 3.2%, following a revised 4.3% (previously 3.5%) gain in December 2014, and an unrevised 1.9% (initially 2.1%) annual gain in November.

The headline January sales data remained well within the regular scope of reporting for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into a renewed downturn, as is becoming increasingly obvious in the graph displayed in the *Opening Comments*. The quality of data for this series also remains highly questionable.

Steady Portion of Sales in Foreclosure. The NAR estimated that the portion of total January 2015 sales in "distress" held at 11% (8% foreclosures, 3% short sales) for the second month, identical with the distribution of the numbers in December 2014, but down from 15% (11% foreclosures, 4% short sales) in January 2014. Reflecting continuing lending problems, related banking-industry and consumer-solvency issues (see *Opening Comments*), and the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales activity in January 2015 were 27%, up from 26% in December 2014, but down from 33% in January 2014.

Bleak Outlook Continues for Home Sales, Based on Impaired Consumer Liquidity Conditions. Discussed along with the graphs in the *Opening Comments*, and as was explored in *No. 692 Special Commentary: 2015 - A World Out of Balance*, there has been no improvement in underlying consumer liquidity conditions. Correspondingly, with no fundamental growth in liquidity to fuel increasing consumer activity, there is no basis here for expecting an imminent recovery in the housing market.

Existing-Home Sales Graph. The regular monthly graph of existing-home sales activity is included in the *Opening Comments* section. For comparison purposes, graphs also are included of January 2015 new-home sales (see the prior section) and of smoothed January 2015 housing starts for single-unit construction (from *Commentary No. 697*).

WEEK AHEAD

Headline Reporting and Revisions Should Trend Much Weaker versus an Overly-Optimistic Economic Consensus; Inflation Will Rise Anew, Following the Bottoming of Oil-Prices. Shifting some to the downside, again, amidst wide fluctuations in the numbers, market expectations for business activity remain overly optimistic in the extreme. They exceed any potential, underlying economic reality. Downside corrective revisions and an accelerating pace of downturn in broad-based, monthly headline economic reporting should hammer those expectations heavily through mid-year. Recent GDP excesses will not face downside revisions until the July 30, 2015 GDP benchmark revision, other than for the two monthly revisions still pending for fourth-quarter 2014 GDP (the first of those being tomorrow).

Headline consumer inflation—recently driven lower by collapsing prices for gasoline and other oil-price related commodities—likely hit a near-term low in the headline January 2015 reporting. Significant upside inflation pressures should resume as oil prices rebound, a process that already appears to be underway, and one that would accelerate rapidly with an eventual sharp downturn in the exchange-rate value of the U.S. dollar. These areas, the general economic outlook and longer range reporting trends are reviewed broadly in *No. 692 Special Commentary: 2015 - A World Out of Balance*.

***A Note on Reporting-Quality Issues and Systemic-Reporting Biases*.** Significant reporting-quality problems remain with most major economic series. Beyond gimmicked changes to reporting methodologies of the last several decades, ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. Data instabilities were induced partially 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. The severity and ongoing nature of the downturn provide particularly unstable headline economic results, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment, and unemployment data, see *Commentary No. 695*). Combined with recent allegations 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 (see *Commentary No. 669*).

PENDING RELEASES (Updated Text Is Underlined for the GDP):

Updated: **Gross Domestic Product—GDP (Fourth-Quarter 2014, First Revision, Second Estimate).** The Bureau of Economic Analysis (BEA) will publish its second estimate of fourth-quarter 2014 GDP tomorrow, Friday, February 27th. Market expectations keep slipping towards an ever-larger downside revision to the initial headline growth estimate of 2.6%, Bloomberg reports a consensus expectation of 2.1%. Not only is a downside revision a good bet, but also reporting risks remain to the downside of the consensus. Specific elements related to the GDP revisions were discussed in *Commentary No. 698* in *Commentary No. 697*, and in *Commentary No. 696*.

Where underlying fundamentals suggest a fourth-quarter growth rate something on the plus-side of flat, revisions down to that level may not be seen until the July 30th benchmark revision.

In recent reporting, BEA revisions to initial GDP estimates have been unusually volatile, signaling instabilities in the reporting system likely tied to the impact of the Affordable Care Act. The ACA is an economic depressant, not a stimulus, and it is not easily quantifiable, given the extremely poor-quality of the data available. Discussed frequently by ShadowStats, the GDP remains the most-worthless, guessed-at, politically-manipulated and heavily-massaged of the major economic series put out by the various U.S. statistical bureaus.

Separately, given the poor-quality of the broad economic data available, the year-end reporting tradition has been to delay the initial fourth-quarter estimates of Gross National Product (GNP) and Gross Domestic Income (GDI) until the second revision of the fourth-quarter GDP (March 27th). Those revisions usually are published with the first-revisions to other quarters. GDP is a component of the broader GNP measure, which includes the trade balance in factor income (interest and dividend payments), while GDP is the consumption-side equivalent to the income-side GDI.