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

COMMENTARY NUMBER 706
February CPI, Home Sales and the Economy, Fed and Dollar

March 24, 2015

Headline February Real Retail Sales Fell by 0.8% (-0.8%),
Annual Retail Sales Growth at Recession Level

First-Quarter Real Sales Contracting at 2.6% (-2.6%) Annualized Pace,
Worst Showing Since Depths of Economic Collapse

Real Earnings Were Down for the Month

February Year-to-Year Inflation: 0.0% (CPI-U), -0.6% (CPI-W), 7.6% (ShadowStats)

Unstable Home Sales Data - New Sales in Protracted Stagnation,
Existing Sales Trending Lower

Dollar and Fed Policy Begin to Falter

PLEASE NOTE: The next regular Commentary, *scheduled for tomorrow, Wednesday, March 25th, will cover new orders for durable goods, followed by a* Commentary *on March 27th, covering the third estimate of fourth-quarter 2014 GDP.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

GDP Reporting Likely Will Mirror First-Quarter Contraction in Real Retail Sales. Noted and detailed in the *Opening Comments* of *Commentary No. 705*, with the exception of increasingly distorted and poor-quality labor data, recent, underlying economic detail has turned ever-more negative, including the trade deficit, nominal retail sales, industrial production, and housing and construction activity. Today's headline reporting of real, or inflation-adjusted, retail sales joined the ranks of economic series reflecting first-quarter 2014 contractions, all but locking in a first-quarter 2014 GDP downturn.

Reporting in the weeks ahead increasingly should confirm that pattern. The markets have begun to sense that there is a major problem with the U.S. economy, and that the prognostications of "normal" Fed behavior and looming interest rate hikes may have to be put on hold. Fed Chair Janet Yellen suggested that possibility in her press conference following last week's FOMC meeting. Market anticipation of virtuous Fed behavior and of ongoing, solid U.S. economic growth has been a primary factor behind the extraordinarily powerful rally in the U.S. dollar since mid-2014.

As the happy presumptions have begun to crack and crumble, the U.S. dollar has backed off its recent highs. Discussed in the *Opening Comments* of *No. 692 Special Commentary: 2015 - A World Out of Balance*, and in the accompanying updated *Hyperinflation Summary Outlook* in today's *Commentary*, images of the U.S. being healthier than the rest of the world in terms of economic strength, fortitude in fiscal and monetary policies, and in political stability simply are false. The eventual severe selling ahead for the U.S. dollar, which could develop quickly and with little warning, promises extreme upheaval in the global economy and financial system. It likely will resurrect systemic woes that were masked—issues that never went away—following the Panic of 2008.

Today's Missive (March 24th). The balance of today's *Commentary* concentrates on the specifics of the February 2015 CPI and related reporting, such as real retail sales and earnings, and of February new- and existing-home sales. Related consumer liquidity issues, discussed at the end of the *Opening Comments*, were reviewed fully in prior *Commentary No. 705*.

The *Hyperinflation Watch* includes an updated *Hyperinflation Outlook Summary*, reflecting the most recent detail on deteriorating economic activity and related impact on Fed policy and the fluctuating value of the U.S. dollar. Also included are the latest gold-related graphs (versus the Swiss franc, oil and silver), which usually accompany the CPI *Commentaries.*

The *Week Ahead* section previews tomorrow's reporting of February new orders durable goods, with an updated outlook for Friday's third-estimate, second-revision of fourth-quarter 2014 GDP.

Consumer Price Index (CPI)—February 2015—*Headline February Inflation Rose by 0.2%, First Monthly Gain in Four Months; Annual Inflation Unchanged*. After seven months of ongoing selling pressure, oil and gasoline prices hit something of a bottom in January, with general prices and consumer inflation moving higher in February. Unadjusted retail gasoline prices rose in February by 5.3% per the Bureau of Labor Statistics (BLS), up by 4.2% per the Department of Energy (DOE). Gasoline prices appear likely to have gained a further 10% in March 2015, promising some further upside pressure for the March CPI.

Where inflation growth is subtracted from the nominal, or not-inflation adjusted series, to create a real or inflation-adjusted series, the effect of recent negative inflation was to increase the pace of real growth. The current positive inflation dampens growth in the real series, as was seen in a deeper February contraction in real retail sales (already negative in nominal terms), and in a monthly downturn in real average weekly earnings. Positive headline inflation also should begin to reverse the pattern of recent gains in monthly real median household income.

The upturn in oil prices has stalled in recent weeks, though, and a sustained increase in energy prices would be needed to keep headline inflation in positive territory. Where supply and demand factors appear to favor continued, relatively low oil prices, industry economics probably will kick-in, increasingly altering those circumstances. Separately, a likely massive decline the U.S. dollar still looms in the not-too-distant future. Such an event would spike oil prices and other inflationary pressures, sharply (see the *Hyperinflation Summary Outlook*).

Although the pace of annual inflation also slowed with the recent decline in monthly oil prices, turning negative in January and formally flat in February, 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.

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 Commentary on Inflation Measurement* and as adjusted for in the ShadowStats Alternate Inflation Measures.

CPI-U. The headline, seasonally-adjusted February 2015 CPI-U rose month-to-month by 0.22%, following a monthly decline in January of 0.68% (-0.68%). Adjusted headline February inflation was heavily constrained by seasonal factors. On a not-seasonally-adjusted basis, the February 2015 CPI-U rose by 0.43% month-to-month, following an unadjusted contraction of 0.47% (-0.47%) in January 2015.

Encompassed by the seasonally-adjusted gain of 0.22% in the February CPI-U [up by an unadjusted 0.43%], aggregate February energy inflation rose for the month by an adjusted 0.95% [up by an unadjusted 2.07%]. In the other major CPI sectors, adjusted food inflation rose by 0.15% for the month [up by 0.07% unadjusted], while adjusted "core" inflation was up by 0.16% [up by 0.35% unadjusted] for the month. Separately, Core CPI-U inflation showed unadjusted year-to-year inflation of 1.69% in February 2015, versus 1.65% in January 2015.

Not seasonally adjusted, February 2015 year-to-year inflation for the total CPI-U was a headline "unchanged" at 0.0%, down by 0.03% (-0.03%) at the second decimal point. In January 2015, the headline annual decline was 0.09% (-0.09%).

CPI-W. The February 2015 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose by 0.26% in January 2015, versus a decline of 0.93% (-0.93%) in January. Unadjusted, February 2015 year-to-year CPI-W declined by 0.63% (-0.63%), versus an annual decline of 0.76% (-0.76%) in January 2015.

Chained-CPI-U. Initial reporting of unadjusted year-to-year inflation for the February 2015 C-CPI-U was an annual contraction of 0.50% (-0.50%), versus a year-to-year decline of 0.59% (-0.59%) in January 2015.

Alternate Consumer Inflation Measures. The ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 3.6% in February 2015, versus 3.5% in January 2015. The February 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 7.6% year-to-year, versus 7.5% in January 2015.

Real Retail Sales—February 2015—First-Quarter Contraction Is a Virtual Certainty, Annual Growth Fell to Recession Level. In nominal terms, before adjustment for inflation, headline monthly retail sales declined by a statistically-significant, seasonally-adjusted 0.58% (-0.58%) in February 2015, and was down by a revised 0.81% (-0.81%) in January 2015, as discussed in *Commentary No. 703*.

Headline Reporting of Real Retail Sales. Based the headline monthly gain of 0.22% in the February 2015 CPI-U, and in the context of a decline of 0.68% (-0.68%) in the January CPI, real retail sales declined by a headline 0.80% (-0.80%) in February 2015, following a revised monthly drop of 0.13% (-0.13%) in January 2015.

Separately, discussed in the *Consumer Liquidity* comments in the *Home Sales* section (see *Commentary No. 705* and *No. 692* for full detail), 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—as reflected partially in the real earnings difficulties seen anew 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.

Quarterly Contraction Effectively in Place. First-quarter 2015 real retail sales, based solely on January and February 2015 reporting, are on track for an annualized quarterly contraction of 2.65% (-2.65%). At that pace, the contraction would be the worst seen since the depths of the economic collapse in 2009. A quarterly contraction is a virtual certainty at this point. For first-quarter 2015 real activity to turn flat, headline March 2015 real retail sales would have to jump month-to-month by a highly unlikely 2.43%.

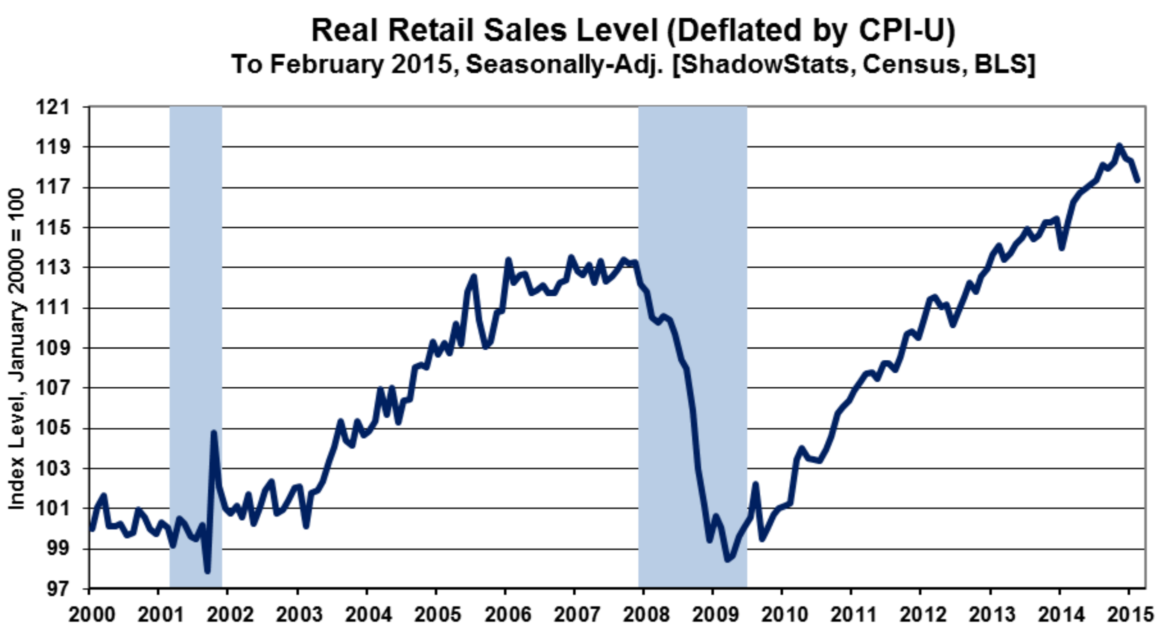
The last time real retail sales contracted on a quarterly basis was in first-quarter 2014, down then by an annualized 0.44% (-0.44%). With positive inflation at that time, nominal first-quarter 2014 retail sales rose at an annualized pace of 1.68% [first-quarter 2015 nominal retail sales are contracting at an annualized pace of 6.06% (-6.06%)]. Nonetheless, headline real GDP also last contracted in first-quarter 2014, mirroring the real retail sales activity. A similar mirroring of contracting, quarterly activity has become increasingly likely for first-quarter 2015 real GDP.

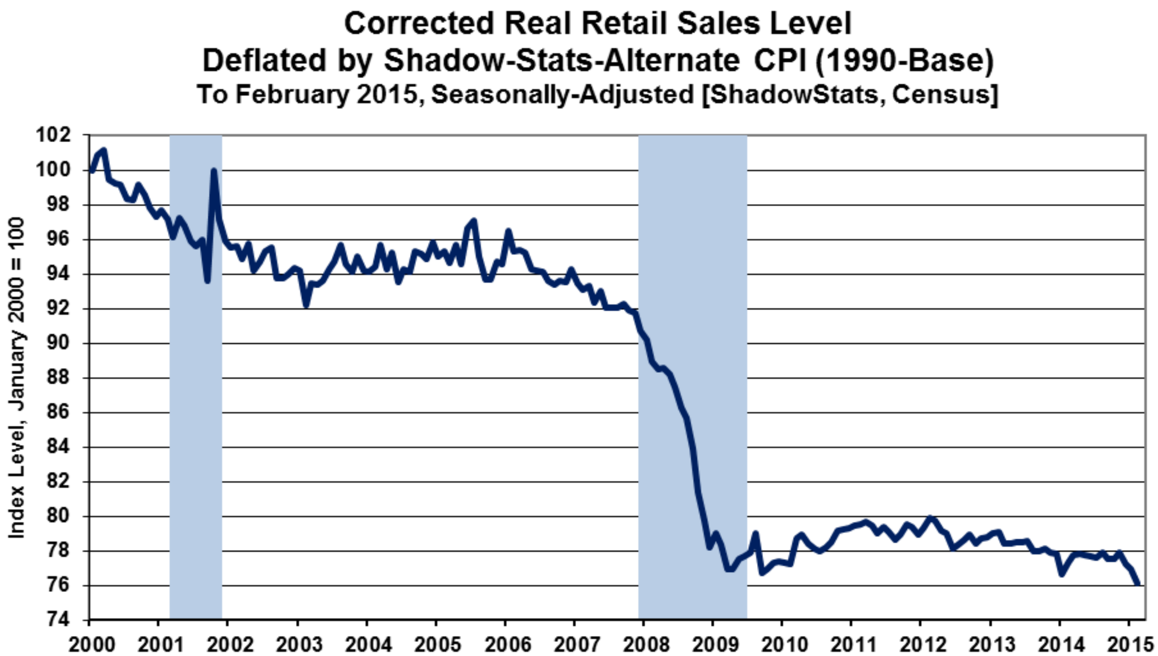
In terms of annualized quarter-to-quarter growth in other earlier quarters, annualized real retail sales growth in fourth-quarter 2014 was a downwardly-revised gain of 2.72%. In turn, third-quarter annualized real growth was 3.05%, and second-quarter 2014 real growth was 6.28%.

Real Year-to-Year Growth Slowed Markedly. Year-to-year change in February 2015 real retail sales slowed to 1.77%, versus an upwardly-revised 3.81% in January 2015. In normal economic times, annual real growth at or below 2.0% would signal an imminent recession. That signal was just renewed and had been given otherwise, recently. That signal is in play and likely will serve as an indicator of renewed downturn in broad economic activity. Annual growth in and monthly levels of real retail sales are plotted in the series of graphs found in the *Reporting Detail* section.

Corrected Real Retail Sales—February 2015**.** The apparent "recovery" in headline real retail sales generally continued through late-2014, although headline reporting turned down in December 2014, and in January and February 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, broad 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.

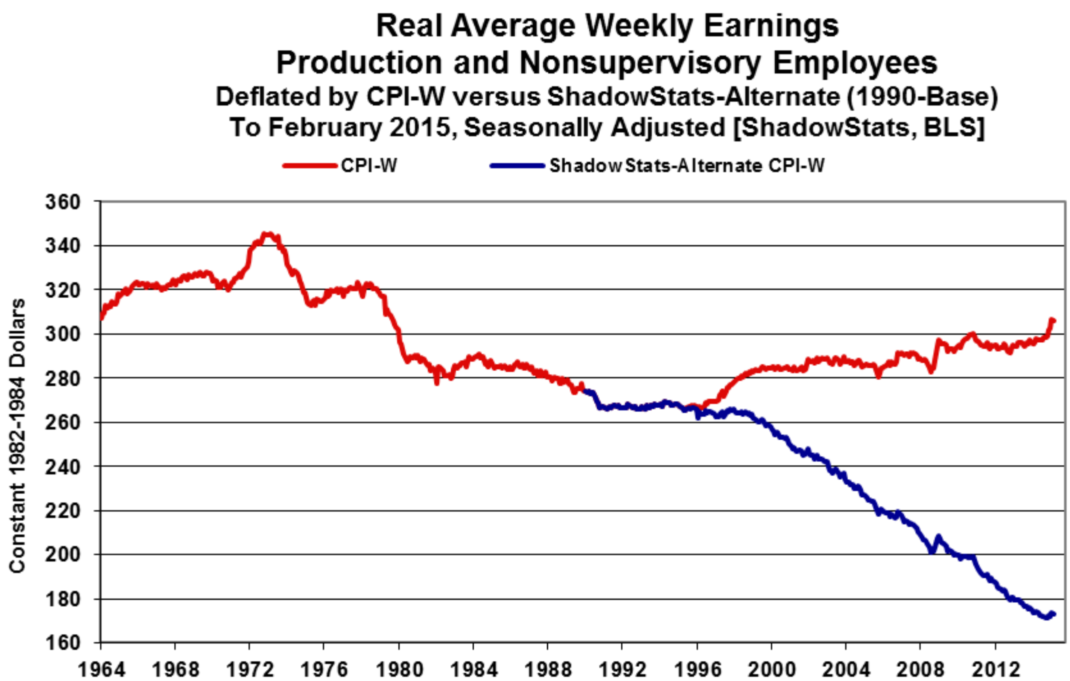
Real Average Weekly Earnings—February 2015—Down for the Month. In the context of a headline, seasonally-adjusted monthly gain of 0.26% in February 2015 CPI-W, the BLS published real average weekly earnings for the month of February 2015 (deflated by CPI-W). The gain in the February CPI-W followed a headline monthly contraction of 0.93% (-0.93%) in the January 2015 inflation measure.

For the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings fell by 0.26% (-0.26%) for the month of February 2015, following an upwardly revised 1.33% gain in January 2015. The upside revision to January was due entirely to a downside revision to December 2014 earnings. Headline December 2014 real earnings revised lower to a gain of 0.23% [previously up by 0.58%]. Before inflation adjustment, average weekly earnings were unchanged in February, versus January, with January up by a revised 0.39% (previously unchanged) versus the downwardly revised December level.

Year-to-year and seasonally-adjusted, February 2015 real average weekly earnings eased back to 3.18%, from an unrevised 3.80% in January 2015, and versus a downwardly-revised 2.24% gain in December

2014. 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 accompanying graph of this series 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 recent sharp decline in headline inflation generated a temporary, but visible spike in real-earnings as of December and January, now pulling back with the February detail.



Home Sales—February 2015—Residential Real Estate Activity Remains Constrained by Consumer Liquidity Issues. Existing-home sales increased by 1.2% month-to-month in February 2015, but the series remained in near-term downtrend, headed for a first-quarter 2015 contraction. February 2015 new-home sales jumped by a headline 7.8%, but the general reporting pattern for this series has devolved to the point that the headline monthly detail almost always is statistically meaningless. The six-month moving average for the new-home sales series continued to show a pattern of low-level stagnation.

New-Home Sales—February 2015—Nonsensical and Unstable Headline Reporting Continued to Suggest Low-Level Sales Stagnation. Headline new-home sales reporting remained worthless. Although

February 2015 sales jumped by 7.8% for the month, versus negative market expectations looking for a headline decline of 4.0% (-4.0%) [Bloomberg], the 95% confidence interval around that headline change was plus-or-minus 17.8%, which easily encompassed not only the headline change, but also the 11.8% spread between market expectations versus the headline detail, including any accounting for the upside revision to January reporting. The headline 7.8% monthly gain simply was not statistically-significant, any way it was viewed. The purported sales jump was of no substance in what has become a repeating pattern of occasional headline monthly sales surges that revise away in subsequent reporting. Nonetheless, the headline February number was being touted heavily in today's markets as a sign of positive U.S. economic activity.

The approach here in assessing these otherwise worthless headline monthly new-home sales 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 shown, along with the headline monthly detail for new-home sales and single-unit housing starts, in the accompanying graphs.

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 recovery. Headline February 2015 new-home sales activity still was down by 61.2% (-61.2%) from the pre-recession peak of July 2005 for the series, while February 2015 single-unit housing starts were down by 67.5% (-67.5%) from the February 2006 high of that series. Discussed later in this general 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 an upside revision to January 2015, February 2015 headline new-home sales (counted based on contract signings) rose by a statistically-insignificant 7.8%. That followed a revised monthly gain of 4.4% in January. Net of prior-period revisions, February 2015 sales gained 12.0%, instead of the headline 7.8%. Year-to-year, February 2015 sales rose by a marginally statistically-significant 24.8%, against a pattern of collapsing headline sales in February 2014. The annual February 2015 gain followed a revised 9.4% annual gain in January 2015.

Existing-Home Sales—February 2015—Rose Minimally in February, but Were on Track for First-Quarter Contraction. Headline February 2015 existing home sales showed a pattern of collapsing growth over the last year. Moving off an annualized quarter-to-quarter contraction of 18.8% (-18.8%) in first-quarter 2014, subsequent activity rebounded by 19.2% in an annualized second-quarter 2014 relative sales surge. Growth since then has slowed markedly, returning to a contraction in first-quarter 2015 activity. Annualized third-quarter 2014 growth slowed to 14.7%, and dropped to a minimal 0.3% annualized gain in fourth-quarter 2014 sales. Now, based on the first two months of first-quarter 2015 reported, existing-home sales are contacting at an annualized pace of 15.6% (-15.6%).

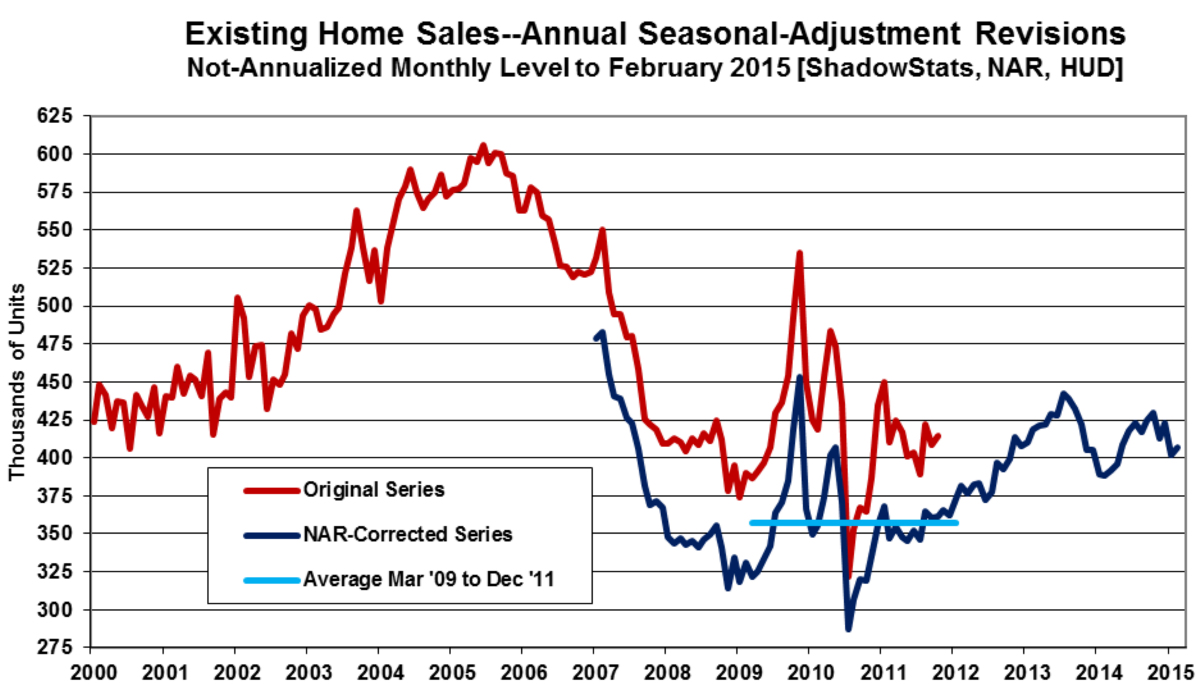
The February 2015 headline annualized sales pace of 4,880,000 (a monthly pace of 406,667) also remained below the June 2005 pre-recession peak in sales for the series by a simple 32.9%.

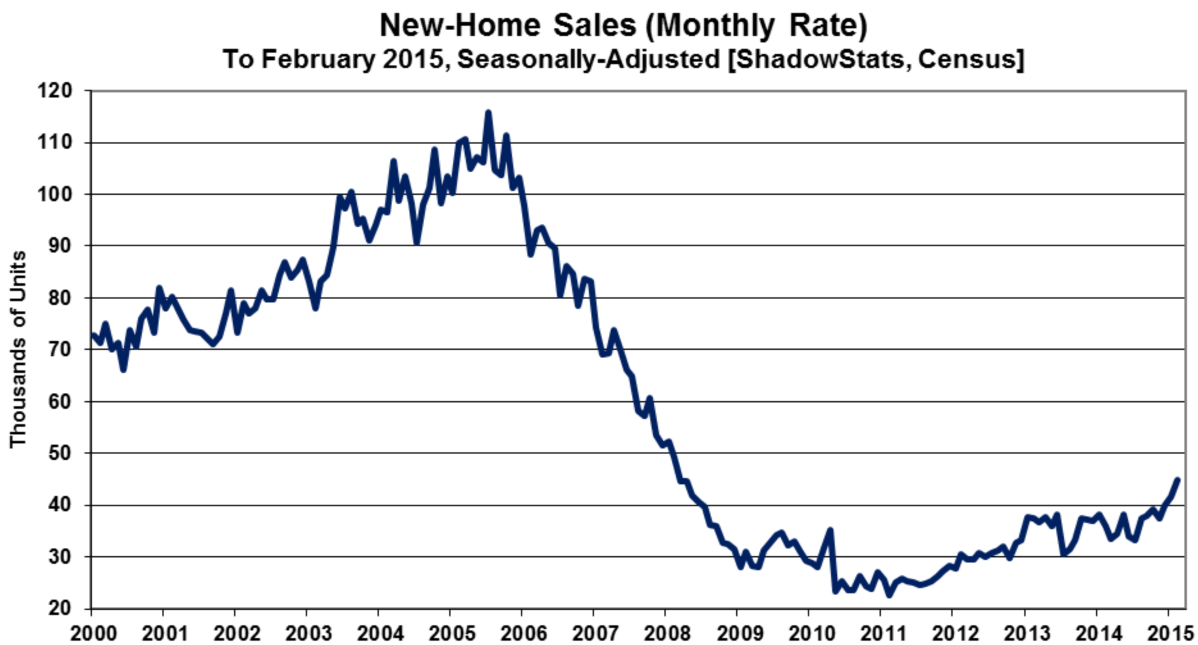
Headline Detail for February 2015 Existing-Home Sales. February existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted, headline monthly gain of 1.2%, following an unrevised headline decline of 4.9% (-4.9%) in January. On a year-to-year basis, February 2015 sales rose by 4.7%, following an annual gain of 3.2% in January 2015.

The headline February 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, which has become increasingly obvious in the accompanying graph. The quality of data for this series, however, remains highly questionable.

Steady Portion of Sales in Foreclosure for Third Month. The NAR estimated that the portion of total February 2015 sales in "distress" held at 11% (8% foreclosures, 3% short sales) for the third month, identical with the distribution of the numbers in January 2015 and December 2014, but down from 16% (11% foreclosures, 5% short sales) in February 2014. Reflecting continuing lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money, the NAR estimated that all-cash sales in February 2015 represented 26% of total activity, versus 27% in January 2015 and 35% in February 2014.

New and Existing-Home Sales Graphs. The regular monthly graphs of new- and existing-home sales activity follow. For comparison purposes, the graphs included both raw- and smoothed-data for February 2015 new-home sales and for housing starts for single-unit construction (from *Commentary No. 705*).




New-Home Sales (Monthly Rate)
To February 2015, Seasonally-Adjusted [ShadowStats, Census]
Thousands of Units
120
110
100
90
80
70
60
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2000
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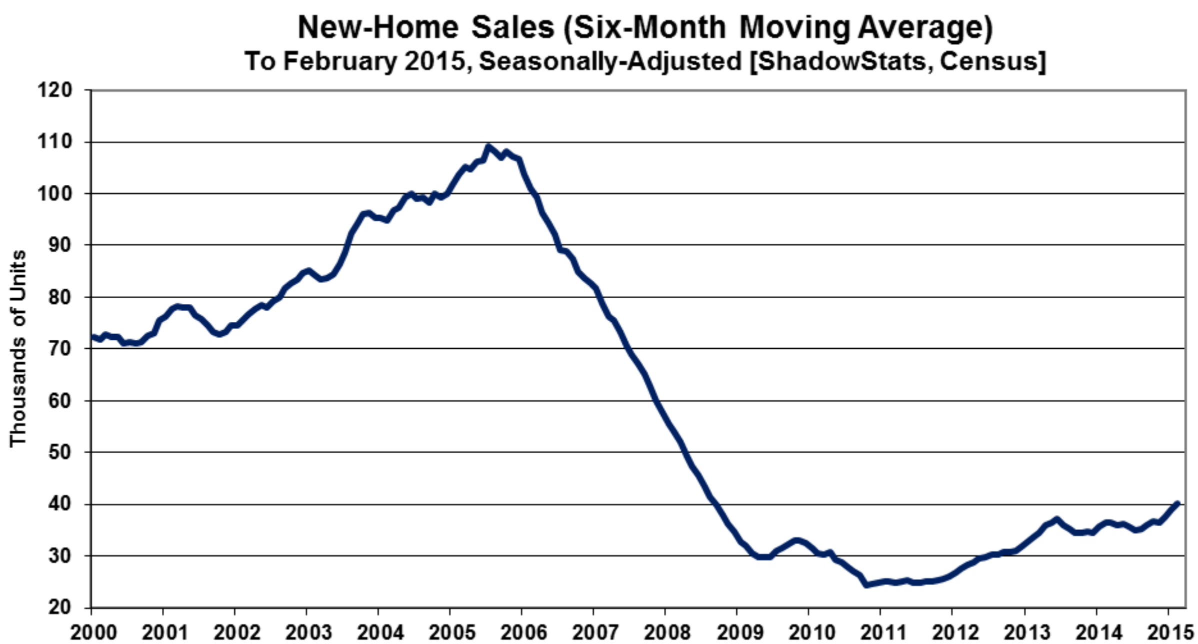
New-Home Sales (Six-Month Moving Average)
To February 2015, Seasonally-Adjusted [ShadowStats, Census]
Thousands of Units
120
110
100
90
80
70
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50
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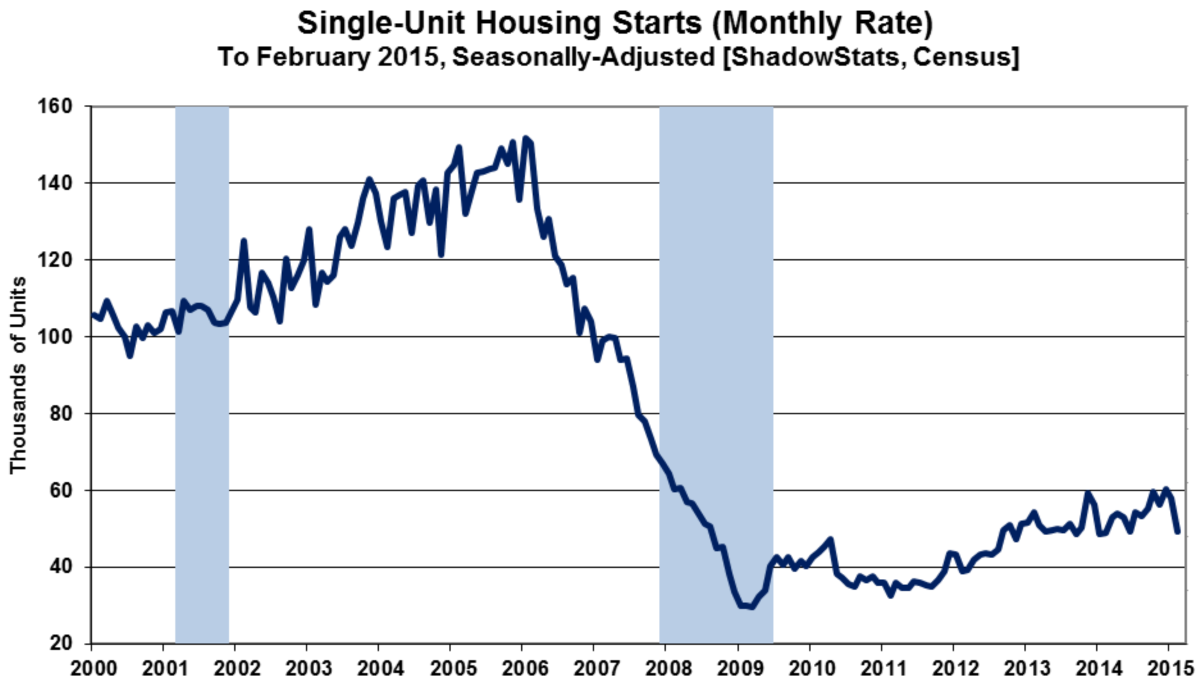

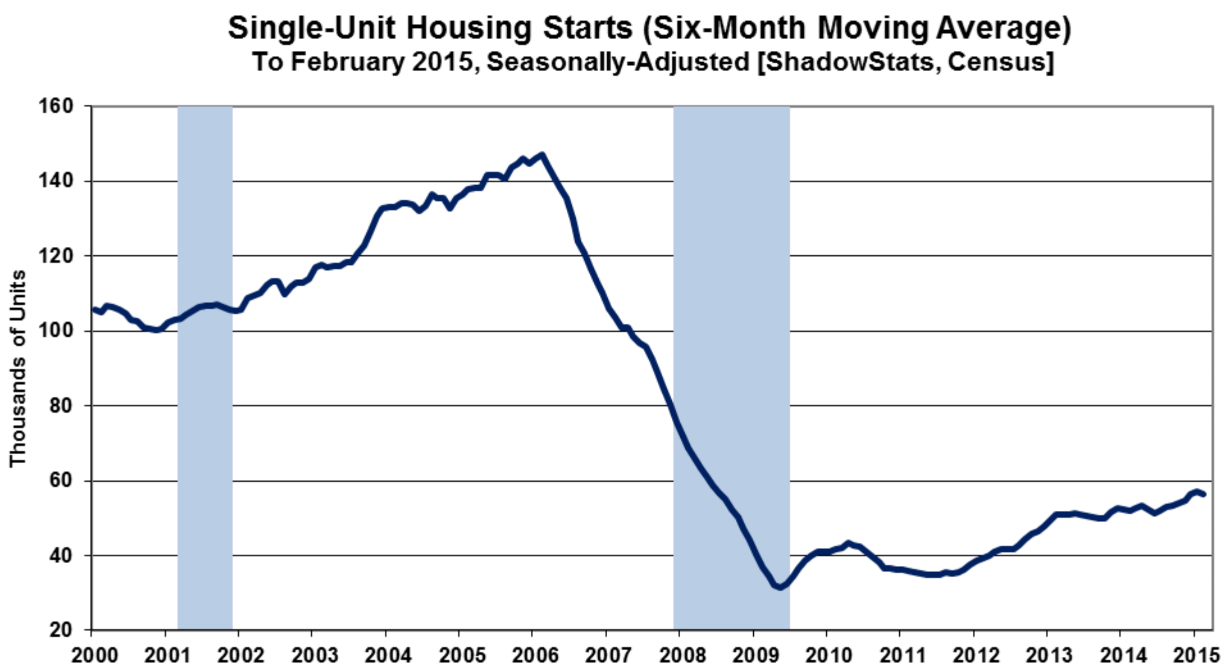

Bleak Outlook Continues for Home Sales and Real Retail Sales, Based on Impaired Consumer Liquidity. Explored in some detail in prior *Commentary No. 705* and in the *Special Commentary No. 692*, there has been no improvement in underlying consumer liquidity conditions. Without real (inflation-adjusted) 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 real retail sales activity and the related, dominant personal-consumption-expenditures category of the GDP. Those sectors account for more than 70% of GDP activity. Accordingly, there is no basis here for expecting an imminent recovery in the either retail sales or housing.

[The* Reporting Detail *section contains further background material on CPI and related real retail sales and earnings, and existing- and new home sales. Various drill-down and graphics options on the headline CPI numbers are available to subscribers at our affiliate:* www.ExpliStats.com*.]

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HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY

General Outlook Unchanged; Intensifying Economic Weakness Begins to Impact Fed Policy and U.S. Dollar Strength. *[Note: The text in this section has been modified to reflect intensifying signals of domestic economic weakness, and its potential adverse effects on Fed policy and U.S. dollar strength. New or changed text has been underlined.]*

No. 692 Special Commentary: 2015 - A World Out of Balance of February 2, 2015 updated the *Hyperinflation 2014* reports and the broad economic outlook. Previously, the long-standing hyperinflation and economic outlooks were updated with the publication of *2014 Hyperinflation Report—The End Game Begins – First Installment Revised*, on April 2, 2014, and publication of *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, on April 8, 2014. The outlooks also are updated regularly in the weekly *Commentaries*. The *Opening Comments* of *No. 692* should be considered in terms of recent circumstances and near-term, proximal triggers for massive dollar selling. The two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts. One other reference should be considered here, in terms of underlying economic reality, and that is the *Public Commentary on Inflation Measurement*.

Primary Summary. Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by unfettered monetization of the national debt and obligations, leading to an eventual hyperinflation. The 2008 Panic and near-collapse of the financial system, and official (U.S. government and Federal Reserve) response to same, pulled the elements of the eventual hyperinflation crisis at the end of this decade into the current period. The primary and basic summary of the broad outlook and the story of how and why this fiscal, financial and economic crisis has unfolded and developed over the years—particularly in the last decade—is found in the *Opening Comments* and *Overview and Executive Summary* of that *First Installment Revised* (linked earlier). The following summarizes the underlying current circumstance and recent developments.

Consistent with the above *Special Commentaries*, the unfolding economic circumstance, in confluence with other fundamental issues, should place mounting and massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic. Physical gold and silver, and holding assets outside the U.S. dollar, remain the primary hedges against the pending total loss of U.S. dollar purchasing power, despite sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014 and broadly related selling pressures in the gold and silver markets.

Current relative U.S. economic strength and the relative virtuousness of Fed monetary policy versus major U.S. trading partners have been over-estimated heavily by the global markets, and structural faults have started to appear in the foundation underpinning recent U.S. dollar strength (see *Opening Comments* and *Commentary No. 705*). Some minor pullback in the dollar has taken place in in recent days, as increasing signs of U.S. economic weakness—unanticipated by the global markets—have begun to threaten the expected near-term hiking of U.S. interest rates by the Federal Reserve.

A crash back to recognition of more-realistic domestic-economic circumstances looms, and it likely will be accompanied by a crash in the U.S. dollar versus major currencies, such as the Swiss franc, Canadian dollar and Australian dollar; related rallies in precious metals and oil; and related sell-offs in the domestic stock and bond markets. Further, a sharp deterioration in near-term domestic U.S. political stability continues to intensify and is of meaningful near-term risk for providing further fuel for heavy selling of the dollar.

***Current Economic Issues versus Underlying U.S. Dollar Fundamentals*.** U.S. economic activity is turning down anew, despite overstated growth in recent GDP reporting. GDP and other major economic series face heavy downside-benchmark revisions through the end of July. Weak, underlying economic reality has begun to surface in headline reporting and should become increasingly and painfully obvious to the financial markets in the headline detail and revisions of the weeks and months ahead, for series such as real retail sales, production, housing and construction, the trade deficit and payroll employment.

As financial-market expectations shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, particularly deteriorating domestic political conditions, should intensify mounting and eventually massive selling pressures against the U.S. dollar, fully reversing the dollar's gains of the last eight months, pushing the dollar to historic lows. The nascent currency crisis also has meaningful potential to resurrect elements of the Panic of 2008.

Unexpected economic weakness intensifies the known stresses on an already-impaired banking system, increasing the perceived need for expanded, not reduced, quantitative easing (see *Opening Comments*). The highly touted "tapering" by the FOMC ran its course. Future, more-constructive Fed behavior—purportedly moving towards normal monetary conditions in what had been an unfolding, near-perfect economic environment—was pre-conditioned by a continued flow of "happy" economic news. Suggestions that all was right again with world were nonsense. The Panic of 2008 never was resolved, and the Fed soon will find that it has no easy escape from its quantitative easing (QE3), which continues. Only overt expansion of QE3 ceased; QE4 will become the near-term question.

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

Accordingly, any renewed market speculation as to an added round of Federal Reserve quantitative easing, QE4, could become a major factor behind crashing the dollar and boosting the price of gold. The Fed has strung out its options for propping up the system as much as it could, with continual, negative impact on the U.S. economy. The easings to date, however, appear to have been largely a prop to the increasingly unstable equity markets.

In the event of a QE4, any resulting renewed boost to U.S. equities would be a fleeting illusion, at least in terms of real value (purchasing power of the dollar). Such gains would tend to be losses, in real terms, with the stocks valued in terms of Swiss francs, for example, or valued against what would become a rapidly-increasing pace of domestic U.S. inflation.

Unexpected economic weakness also savages projections of headline, cash-based, federal-budget deficits (particularly the 10-year versions) as well as projected funding needs for the U.S. Treasury. Current fiscal "good news" is from cash-based, not GAAP-based and accounting projections.

All these crises should combine against the U.S. dollar, likely in the very-near future, if they have not already begun to do so. That said, recent faux market perceptions of domestic economic, financial-system and monetary tranquility had boosted the U.S. dollar's strength significantly in global trading and contributed to savaging the prices of oil and in weakening the prices of precious metals. That process may be reversing.

The January 2015 shift in the Swiss franc, due to the elimination of the effective pegging of the franc to the euro and, by default to the U.S. dollar, also had the effect of allowing some temporary upside movement in the dollar prices of gold and silver. Recent intensified weakness in the euro, however, had led to increasingly-negative domestic Swiss interest rates and interventions aimed at depressing the franc, prop the dollar. Such policies usually prove to be fleeting, due to significant undesired side effects on the domestic economy and in financial-market distortions. Again, these markets remain in a state of flux, with recent movement continuing against the dollar.

Strength in the U.S. dollar should continue to reverse, sharply in the context of underlying reality outlined here and in the sections that follow. The actual fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed; it is just a matter of market perceptions shifting anew, against the U.S. currency. That process, again, started with the shift in Swiss National Bank policy. Key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008, is turning down anew, with no potential for recovery in the near-term.*** The circumstance includes a renewed widening in the trade deficit, as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy (see *Opening*). Sharply-negative economic reporting shocks, versus still-unrealistically-positive consensus forecasts, remain a heavily-favored, proximal trigger for the intensifying the unfolding dollar debacle.

- ***U.S. government unwillingness to address its long-term solvency issues.*** Those controlling the U.S. government have demonstrated not only a lack of willingness to address long-term U.S. solvency issues, but also the current political impossibility of doing so. The shift in control of Congress has not altered the systemic unwillingness to address the underlying fundamental issues, specifically to bring the GAAP-based deficit into balance. Any current fiscal "good news" comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run around $5 trillion for the annual shortfall, while those in Washington continue to increase spending and to take on new, unfunded liabilities. The history and issues here are explored in the first installment of the *Hyperinflation Report*, as previously linked; the initial fiscal-2014 details were discussed in *Commentary No. 672*, and the official GAAP-based financial statements for 2014 will be discussed fully, soon (see *Commentary No. 702*).

- ***Monetary malfeasance by the Federal Reserve, as seen in central bank efforts to provide liquidity to a troubled banking system, and also to the U.S. Treasury.*** Despite the end of the Federal Reserve's formal asset purchases, the U.S. central bank monetized 78% of the U.S. Treasury's fiscal-2014 cash-based deficit (see *Commentary No. 672*). The quantitative easing QE3 asset purchase program effectively monetized 66% of the total net issuance of federal debt to be held by the public during the productive life of the program (beginning with the January 2013 expansion of QE3). The monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury. With highly tenuous liquidity conditions for the banking system and the Treasury, it would not be surprising in this period of increasing instability to see covert Federal Reserve activities masked in the purchases of Treasury debt by nations or other entities financially friendly to or dependent upon the United States. Renewed expansion to quantitative easing remains likely, given ongoing banking-system stresses, vulnerable stock markets and weakening, actual U.S. economic activity. As has been commonplace, the Fed likely would seek political cover for new or expanded systemic accommodation in any "renewed" economic distress.

- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, usually with a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. The weaker the rating, the weaker tends to be the U.S. dollar. The positive rating for the President is off its historic low, but still at levels that traditionally are traumatic for the dollar. Chances of a meaningful shift towards constructive cooperation between the White House and the new Congress, in addressing fundamental issues are nil. Issues such as non-recovered, faltering economic activity and the consumer liquidity crisis, and addressing the nation's long-range solvency issues should continue to devolve, into extreme political crisis.

- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are mounting, or sitting in place, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the ongoing situation in Ukraine versus Russia and extremely-volatile circumstances in the Middle East. U.S. response to the Ukrainian situation may be behind part of the recent strength in the U.S. dollar and related weakness in oil prices, with U.S. actions aimed at causing financial distress for Russia. The situation has yet to run its full course, and it has the potential to reverse rapidly.

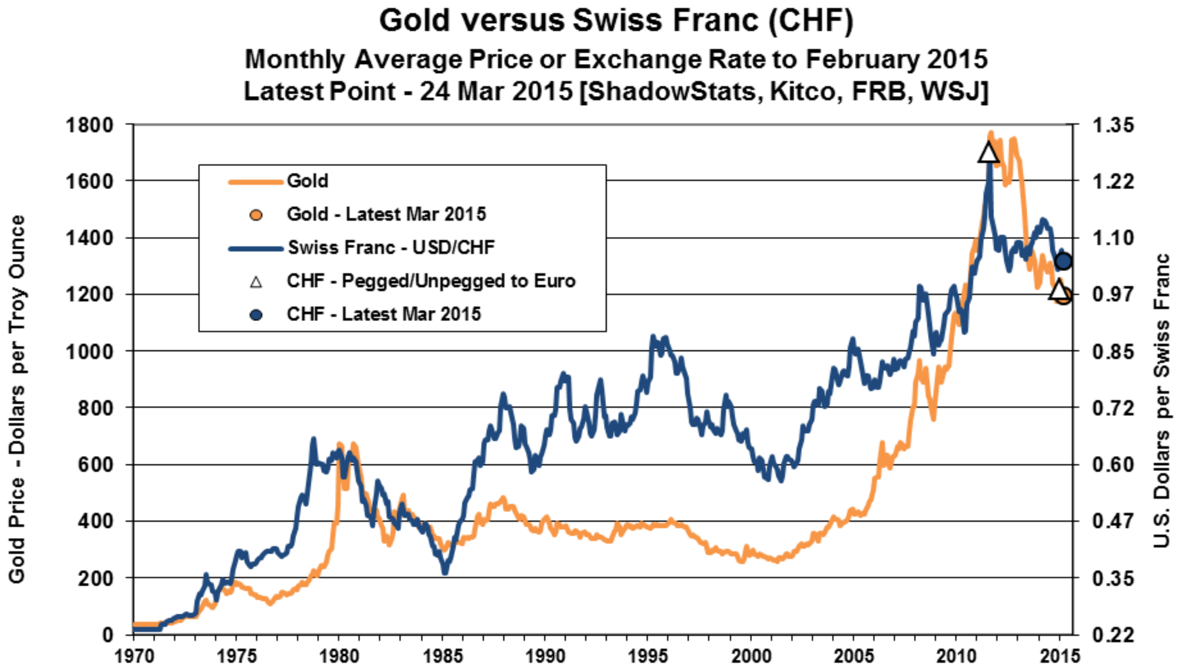
- ***Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.*** Active efforts or comments against the U.S. dollar continue to expand. In particular, anti-dollar rhetoric and actions have been seen with Russia, China, France, India and Iran, along with some regular rumblings in OPEC and elsewhere. Temporary, recent dollar strength may have bought some time versus those who have to hold dollars for various reasons. Nonetheless, developing short-term instabilities and a quick reversal in the dollar's strength could intensify the "dump-the-dollar" rhetoric rapidly.

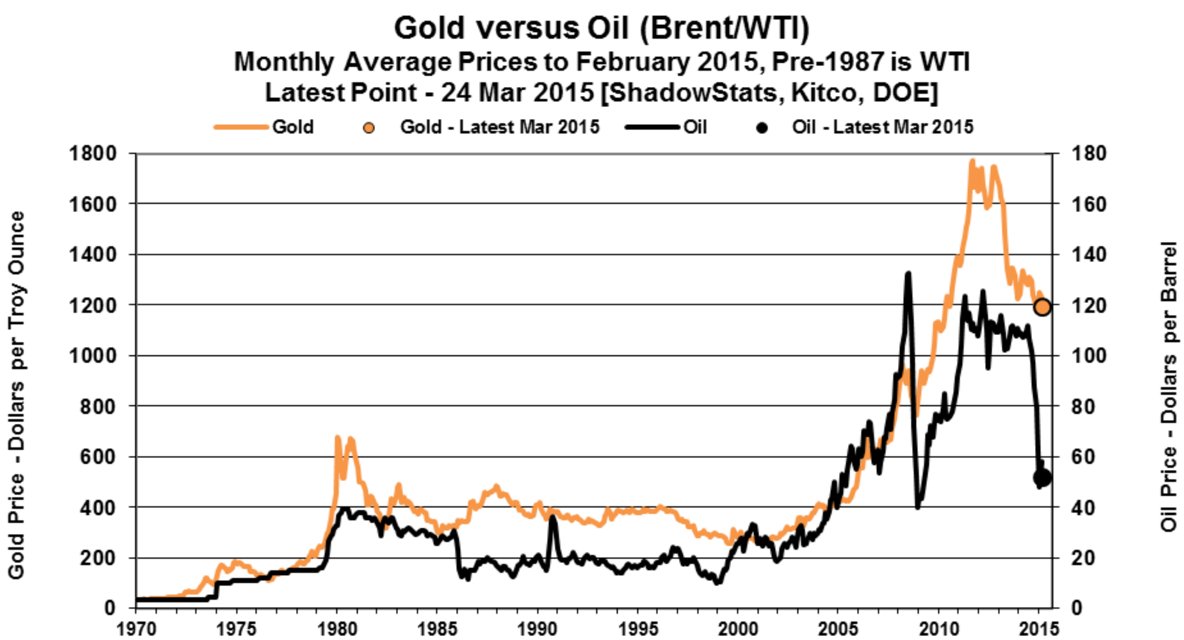
When the selling pressure breaks massively against the U.S. currency, the renewed and intensifying weakness in the dollar will place upside pressure on oil prices and other commodities, boosting domestic inflation and inflation fears. Domestic willingness to hold U.S. dollars will tend to move in parallel with global willingness, or lack of willingness, to do the same. These circumstances will trigger the early stages of a hyperinflation, likely in the year ahead.

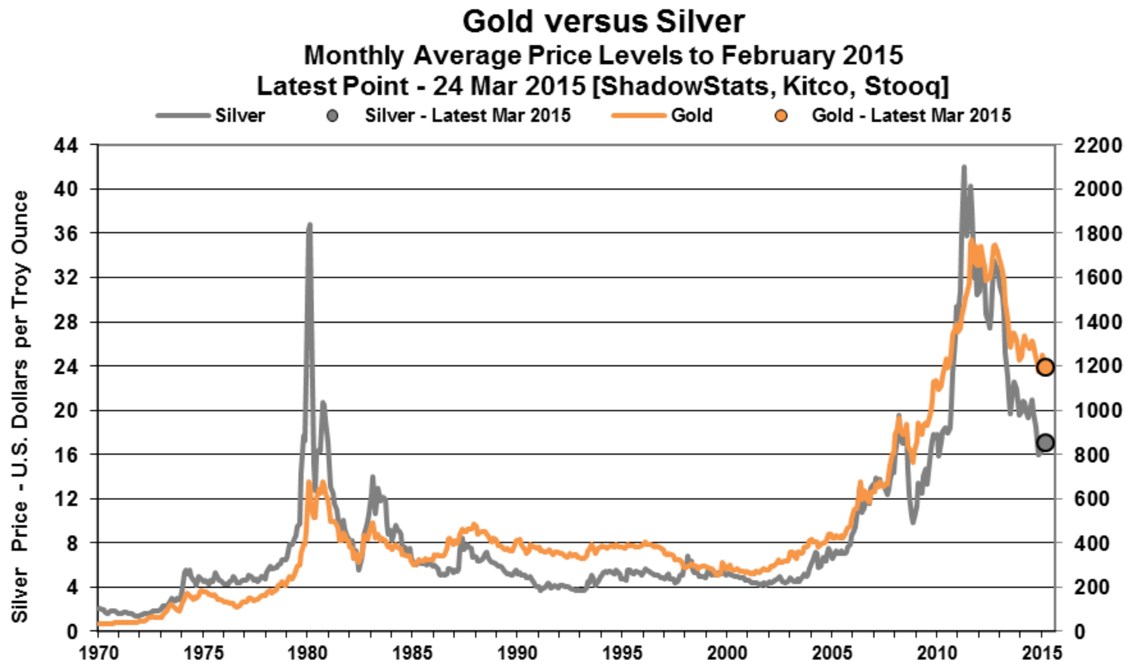
Both the renewed dollar weakness and the resulting inflation spike should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises. Investors need to preserve the purchasing power and liquidity of their wealth and assets during the hyperinflation crisis ahead. Again, see Chapter 10, *2014 Hyperinflation Report—Great Economic Tumble* for detailed discussion on approaches to handing the hyperinflation crisis and *No. 692 Special Commentary: 2015 - A World Out of Balance*, for other factors afoot in the current environment.

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, March 24th, reflecting late-afternoon New York prices for the "Latest March" points in the graphs. These basic graphs also update the *Nominal Markets* section of *No. 692*. As the developing sell-off in the U.S. dollar gains broadly-based pressure, offsetting sharp rallies likely will be seen on a 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 tentatively still remains the primary distorting element in various financial markets. In the last couple of weeks, however, U.S. dollar strength may have put in a top, as headline domestic economic activity has pulled back, and as the Fed has begun to waffle some, as to near-term interest rate hikes. Also, there have been stories of intervention aimed at providing some dollar support. At the same time, oil prices are off bottom, but fluctuating. Nonetheless, mixed 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.


Gold versus Swiss Franc (CHF)
Monthly Average Price or Exchange Rate to February 2015
Latest Point - 24 Mar 2015 [ShadowStats, Kitco, FRB, WSJ]
Gold
Gold - Latest Mar 2015
Swiss Franc - USD/CHF
CHF - Pegged/Unpegged to Euro
CHF - Latest Mar 2015
Gold Price - Dollars per Troy Ounce
U.S. Dollars per Swiss Franc


Gold versus Oil (Brent/WTI)
Monthly Average Prices to February 2015, Pre-1987 is WTI
Latest Point - 24 Mar 2015 [ShadowStats, Kitco, DOE]
Gold
Gold - Latest Mar 2015
Oil
Oil - Latest Mar 2015
Gold Price - Dollars per Troy Ounce
Oil Price - Dollars per Barrel



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REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (February 2015)

Headline February Inflation Rose by 0.2%, First Monthly Gain in Four Months; Annual Inflation Unchanged. After seven months of ongoing selling pressure, oil and gasoline prices hit something of a bottom in January, with general prices and consumer inflation moving higher in February. Unadjusted retail gasoline prices moved higher in February by 5.3% per the Bureau of Labor Statistics (BLS), up by 4.2% per the Department of Energy (DOE). Gasoline prices appear likely to gain a further 10% in March 2015, promising a little more upside pressure for the March CPI.

Where inflation growth is subtracted from the nominal, or not-inflation adjusted series, to create a real or inflation-adjusted series, the effect of recent negative inflation was to increase the pace of real growth. The current positive inflation dampens growth in real series, as was seen in a deeper February contraction in real retail sales (already negative in nominal terms) and a monthly downturn in real average weekly earnings. Positive headline inflation also should begin to reverse the pattern of recent growth in monthly real median household income.

The rally in oil prices has stalled in recent weeks, however, and a sustained increase in energy prices would be needed to keep headline inflation in positive territory. Where supply and demand factors appear to favor continued, relatively low oil prices, industry economics probably will kick-in, increasingly altering those circumstances. Separately, a likely massive decline the U.S. dollar still looms in the not-too-distant future. Such an event would spike oil prices and other inflationary pressures sharply (see the *Hyperinflation Summary Outlook*).

Although the pace of annual inflation also slowed with the recent decline in monthly oil prices, turning negative in January and formally flat in February, 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.

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 Commentary 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. Allowing for the earlier CPI methodologies, actual year-to-year consumer inflation is not close to being flat, zero or minus (see the ShadowStats Alternate Inflation Measures).

Longer-Range Inflation Outlook. Going forward, as discussed generally in *No. 692* and *2014 Hyperinflation Report—The End Game Begins* – *First Installment Revised*, high risk of an intensifying 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 appear to be surfacing and could accelerate at any time, with little further 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, as discussed in the *Hyperinflation Summary Outlook*. 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. The Bureau of Labor Statistics (BLS) reported this morning, March 24th, that headline, seasonally-adjusted February 2015 CPI-U rose month-to-month by 0.2%, up by 0.22% at the second decimal point, following a monthly decline in January of 0.7% (-0.7%), down by 0.68% (-0.68%) at the second decimal point. Adjusted headline February inflation was heavily constrained by seasonal factors. On a not-seasonally-adjusted basis, the February 2015 CPI-U rose by 0.43% month-to-month, following a January 2015 CPI-U unadjusted contraction of 0.47% (-0.47%).

Major CPI-U Groups. Encompassed by the seasonally-adjusted gain of 0.22% in the February CPI-U [up by an unadjusted 0.43%], aggregate February energy inflation rose for the month by an adjusted 0.95% [up by an unadjusted 2.07%]. In the other major CPI sectors, adjusted food inflation rose by 0.15% for the month [up by 0.07% unadjusted], while adjusted "core" inflation was up by 0.16% [up by 0.35% unadjusted] for the month. Separately, Core CPI-U inflation showed unadjusted year-to-year inflation of 1.69% in February 2015, versus 1.65% in January 2015.

Year-to-Year CPI-U. Not seasonally adjusted, February 2015 year-to-year inflation for the CPI-U was headline "unchanged" at 0.0%, down by 0.03% (-0.03%) at the second decimal point. In January 2015, the headline annual decline was 0.1% (-0.1%), down by 0.09% (-0.09%) at the second decimal point.

Year-to-year, CPI-U inflation would increase or decrease in next month's March 2015 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.18% monthly inflation gain reported for March 2014. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for March 2015, the difference in March's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the February 2015 negative annual inflation rate of 0.03% (-0.03%). Headline monthly inflation in excess of roughly 0.3% would be needed in March 2015 in order to push the headline annual CPI-U inflation rate into positive territory.

CPI-W. The February 2015 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose by 0.26% in January 2015, versus a decline of 0.93% (-0.93%) in January.

Year-to-Year CPI-W. Unadjusted, February 2015 year-to-year CPI-W inflation fell by 0.63% (-0.63%), versus an annual decline of 0.76% (-0.76%) in January 2015.

Chained-CPI-U. Initial reporting of unadjusted year-to-year inflation for the February 2015 C-CPI-U was an annual contraction of 0.50% (-0.50%), versus a year-to-year decline of 0.59% (-0.59%) in January 2015. See the opening notes in the *CPI Section* of *Commentary No. 699* as to recent changes to C-CPI-U reporting.

Alternate Consumer Inflation Measures. Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 3.6% in February 2015, versus 3.5% in January 2015.

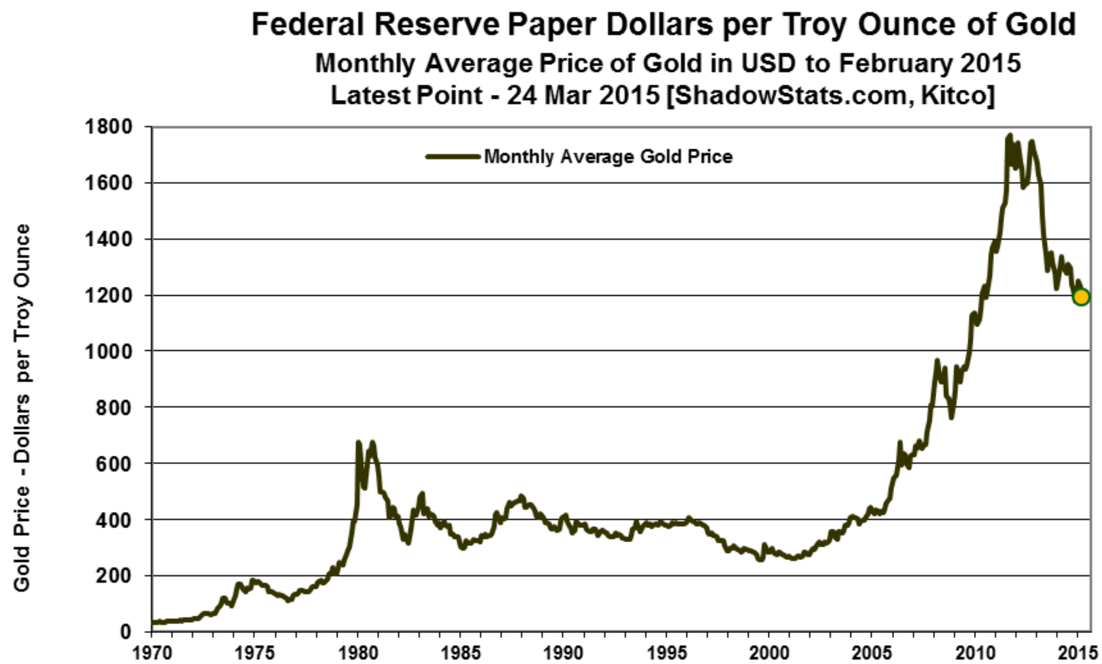
The February 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 7.6% (7.55%) for those using a second decimal point) year-to-year, versus 7.5% in January 2015.

[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 *for further details.)*



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

CPI-U: GOLD at $2,564 per Troy Ounce, SILVER at $149 per Troy Ounce
ShadowStats: GOLD at $11,641 per Troy Ounce, SILVER at $677 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 $2,564 per troy ounce, based on February 2015 CPI-U-adjusted dollars, and $11,641 per troy ounce, based on February 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 February 2015 CPI-U inflation, the 1980 silver-price peak would be $149 per troy ounce and would be $677 per troy ounce in terms of February 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—February 2015—First-Quarter 2015 Contraction Is Virtual Certainty, Annual Growth Falls to Recession Level. In nominal terms, before adjustment for inflation, headline monthly retail sales declined by a statistically-significant, seasonally-adjusted 0.58% (-0.58%) in February 2015, and was down by a revised 0.81% (-0.81%) [previously down by 0.79% (-0.79%)] in January 2015, as discussed in *Commentary No. 703*.

Headline Reporting of Real Retail Sales. Based on today's (March 24th) reporting of a headline monthly gain of 0.22% in the February 2015 CPI-U, and in the context of a decline of 0.68% (-0.68%) in the January CPI, real retail sales declined by a headline 0.80% (-0.80%) in February 2015, following a revised monthly drop of 0.13% (-0.13%) [previously down by 0.11% (-0.11%)] in January 2015.

Quarterly Contraction Effectively in Place. First-quarter 2015 real retail sales, based solely on January and February 2015 reporting, are on track for an annualized quarterly contraction of 2.65% (-2.65%). At that pace, the contraction would be the worst seen since the depths of the economic collapse in 2009. A quarterly contraction is a virtual certainty at this point. For the first-quarter 2015 to turn flat, headline March 2015 real retail sales would have to jump month-to-month by a highly unlikely 2.43%.

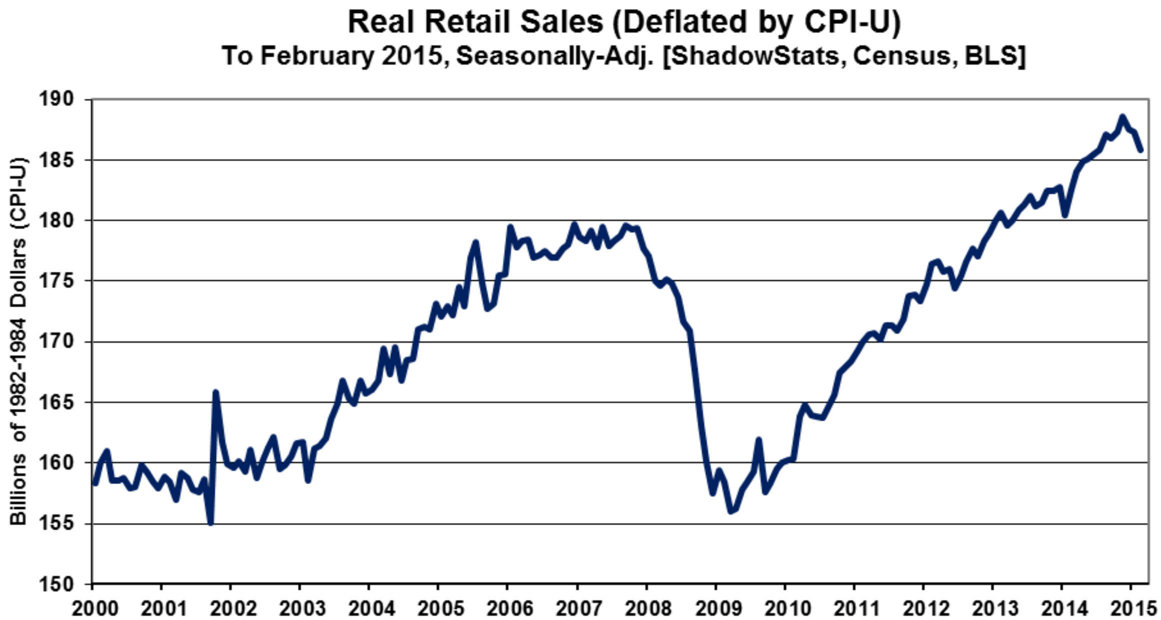
The last time real retail sales contracted on a quarterly basis was in first-quarter 2014, down then by an annualized 0.44% (-0.44%). With positive inflation at that time, nominal first-quarter 2014 retail sales rose at an annualized pace of 1.68% [first-quarter 2015 nominal retail sales are contracting at an annualized pace of 6.06% (-6.06%)]. Nonetheless, headline real GDP also last contracted in first-quarter 2014, mirroring the real retail sales activity. A similar mirroring of contracting, quarterly activity has become increasingly likely for first-quarter 2015 real GDP.

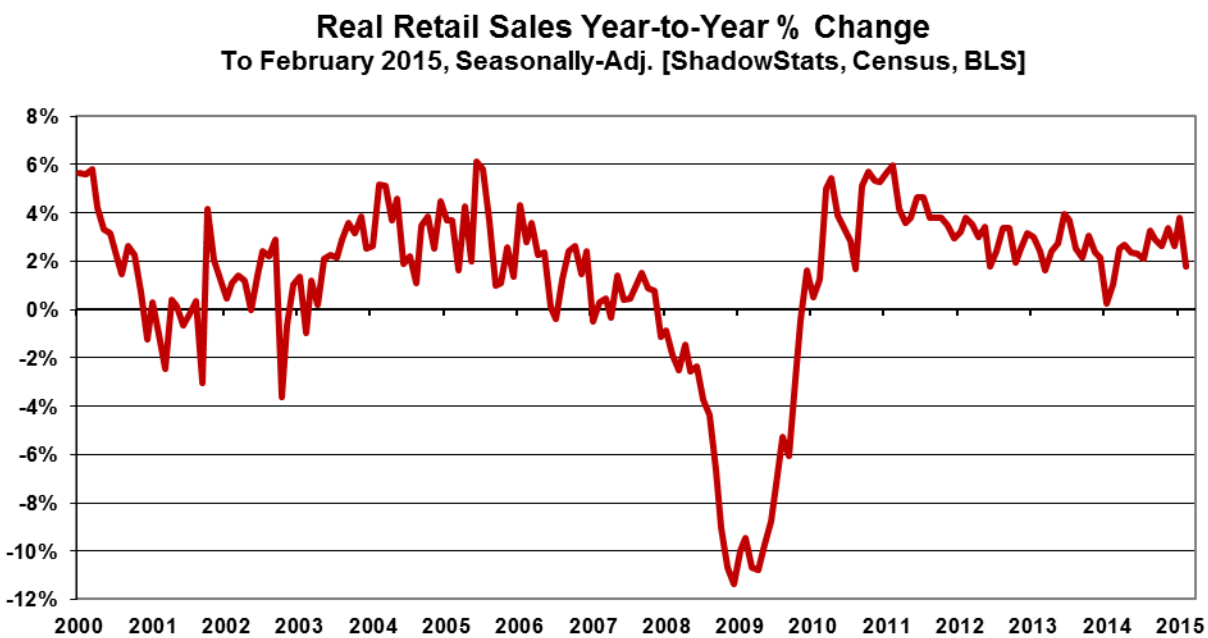
In terms of annualized quarter-to-quarter growth in other earlier quarters, annualized real retail sales in fourth-quarter 2014 was a revised gain of 2.72% (previously 2.76%). In turn, third-quarter annualized growth was 3.05%, and second-quarter 2014 annualized growth was 6.28%.

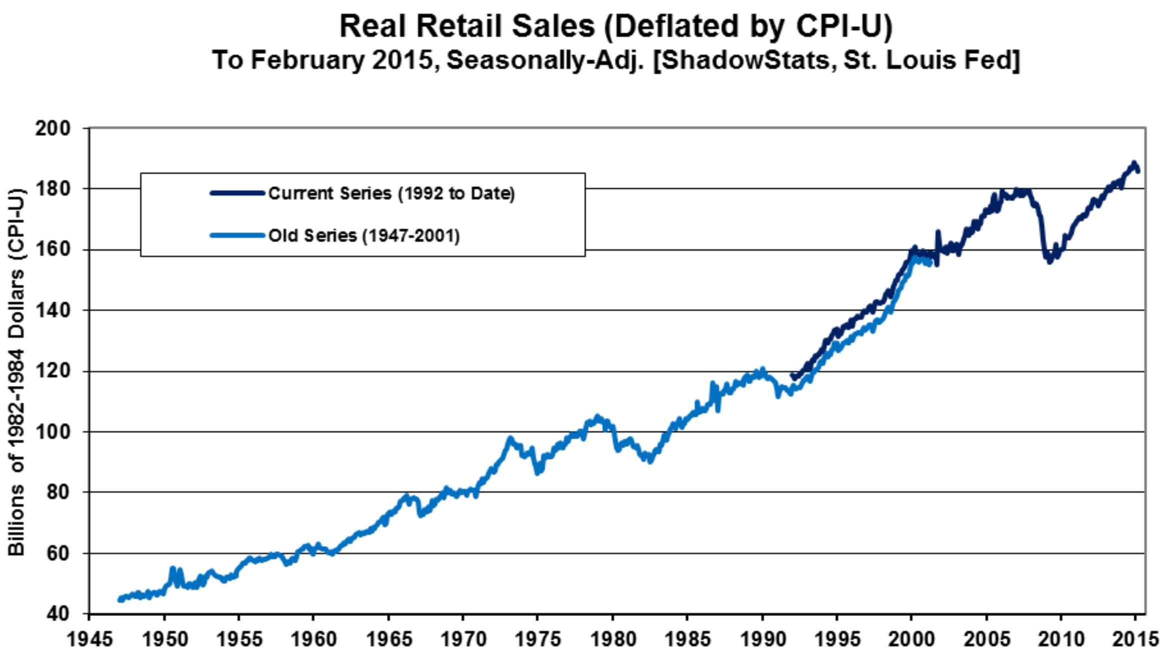
Real Year-to-Year Growth Slowed Markedly. Year-to-year change in February 2015 real retail sales slowed to 1.77%, versus a revised 3.81% (previously 3.53%) in January 2015. In normal economic times, annual real growth at or below 2.0% would signal an imminent recession. That signal was just renewed and had been given otherwise, recently. That signal 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.

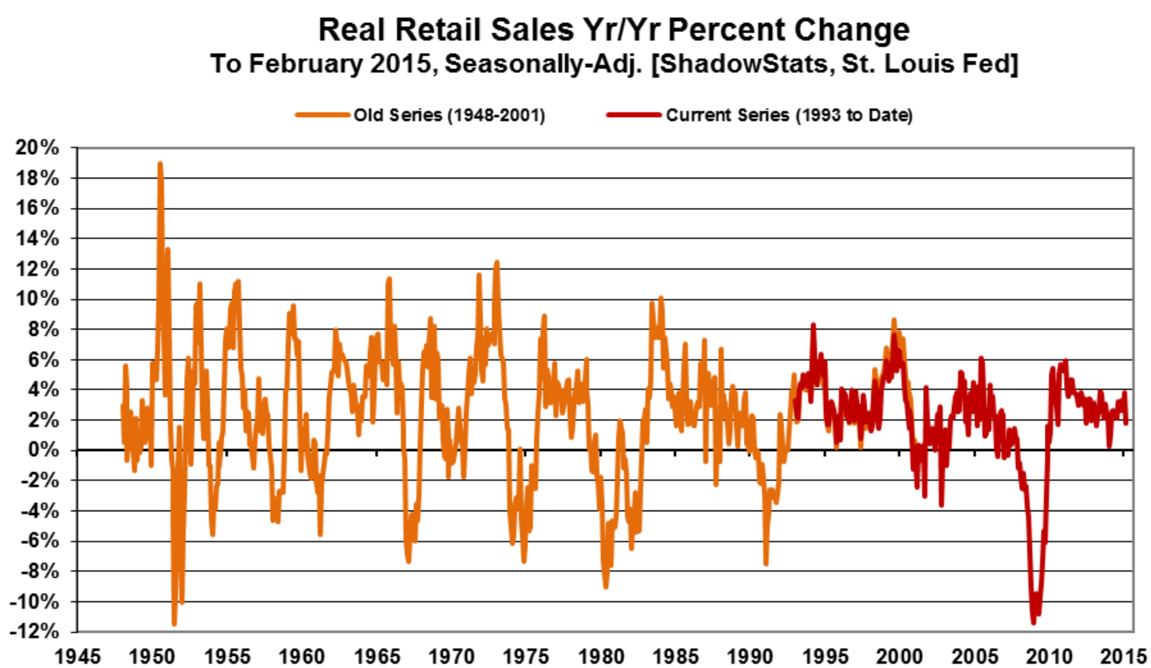
Separately, as discussed in the *Opening Comments* and detailed in *Commentary No. 705* and *No. 692*, during the last six-plus years of economic collapse and stagnation, consumer buying of goods and services has been constrained by the intense, structural-liquidity woes besetting the consumer.

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 anew 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 (Deflated by CPI-U)
To February 2015, Seasonally-Adj. [ShadowStats, Census, BLS]
Billions of 1982-1984 Dollars (CPI-U)
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
To February 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





Real Retail Sales Graphs. The first of the preceding four 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 third month, in February 2015, 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 recent high level in January 2015, spiked by negative inflation at the time, but it fell back below two-percent in February 2015. 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.

Irrespective of near-term reporting weakness, the apparent "recovery" in the real retail sales series and (and series such as industrial production and GDP) up through November 2014 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—February 2015—Down for the Month. Coincident with today's (March 24th) reporting of a headline, seasonally-adjusted monthly gain of 0.26% in February 2015 CPI-W, the BLS published real average weekly earnings for the month of February 2015 (deflated by CPI-W). The gain in the February CPI-W followed a headline monthly contraction of 0.93% (-0.93%) in the January 2015 inflation measure.

In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings fell by 0.26% (-0.26%) for the month of February 2015, following a revised 1.33% gain (previously up by 0.98%) in January 2015. The upside revision to January was due entirely to a downside revision to December 2014 earnings. Headline December 2014 real earnings now are up by 0.23% [previously up by 0.58%, initially up by 0.51%]. Before inflation adjustment, average weekly earnings were unchanged in February, versus January, with January up by a revised 0.39% (previously unchanged) versus a downwardly revised December level.

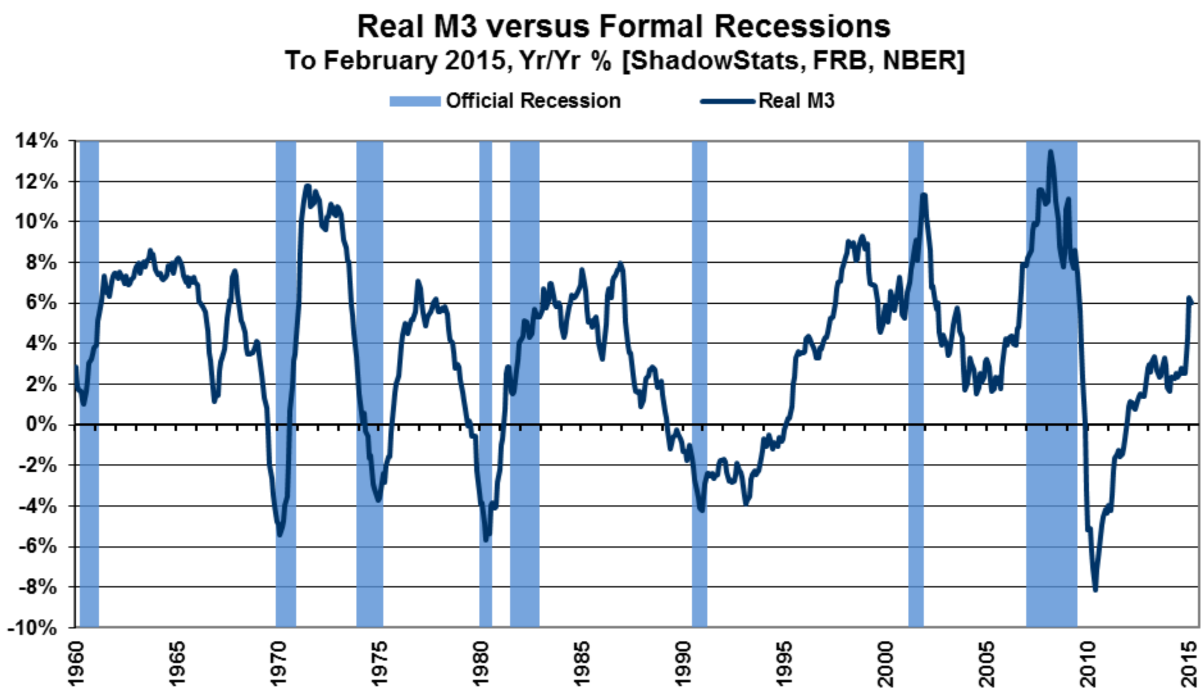
Year-to-year and seasonally-adjusted, February 2015 real average weekly earnings eased back to 3.18%, from an unrevised 3.80% in January 2015, and versus a revised 2.24% (previously 2.59%, initially 2.61%) gain in December 2014. Both the monthly and annual fluctuations in this series are irregular, but 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 as of December and January, now pulling back with the February detail.

Real (Inflation-Adjusted) Money Supply M3—February 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 February 2015 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for February 2015

February 2015 annual growth eased back to 6.0% from an unrevised 6.3% in January. The 0.3% (-0.%) relative decline in January 2015 annual growth reflected a 0.3% pick-up in the pace of annual headline M3 growth plus a more-than-offsetting positive swing of 0.6% 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 growth in recent GDP activity, a renewed downturn in official data is well underway, and 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 No. 692.

NEW-HOME SALES (February 2015)

Nonsensical and Unstable Headline Reporting Continued to Suggest Low-Level Sales Stagnation. Headline new-home sales reporting remained worthless. Although February 2015 sales jumped by 7.8% for the month, versus negative market expectations for a decline of 4.0% (-4.0%) [Bloomberg], the 95% confidence interval around that headline change was plus-or-minus 17.8%, which easily encompassed not only the headline change, but also the 11.8% spread between market expectations versus the headline detail, including any accounting also for the upside revision to January reporting. The headline 7.8% monthly gain simply was not statistically-significant, any way it was viewed. The purported sales jump was of no substance in what has become a repeating pattern of occasional monthly sales surges that revise away in subsequent reporting. Nonetheless, this headline number is being touted heavily in today's markets as a sign of positive U.S. economic activity.

The approach here in assessing these otherwise worthless headline monthly new-home sales 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 graphed in the *Opening Comments*, along with the headline monthly detail for new-home sales and single-unit housing starts.

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 recovery. Headline February 2015 new-home sales activity still was down by 61.2% (-61.2%) from the pre-recession peak of July 2005 for the series, while February 2015 single-unit housing starts were down by 67.5% (-67.5%) from the February 2006 high of that series. Discussed in the *Opening Comments* (see also *Commentary No. 705*), 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 today, March 24th, in the context of an upside revision to January 2015, February 2015 headline new-home sales (counted based on contract signings) rose by a statistically-insignificant 7.8% +/- 17.8% (all confidence intervals are at the 95% level). That followed a revised monthly gain of 4.4% [previously down by 0.2% (-0.2%)] in January. Net of prior-period revisions, February 2015 sales gained 12.0%, instead of the headline 7.8%.

Year-to-year, February 2015 sales rose by a marginally statistically-significant 24.8% +/- 23.9%, versus collapsing headline sales in February 2014, and followed a revised 9.4% (previously 5.3%) annual gain in January 2015.

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 raw and six-month moving-average version of February 2015 housing starts for single-unit construction (*Commentary No. 705*), and February 2015 existing-home sales, also are included for comparison.

EXISTING-HOME SALES (February 2015)

Existing Home Sales Rose Minimally in February but Were on Track for First-Quarter Contraction. Headline February 2015 existing home sales showed a pattern of collapsing growth over the last year. Moving off an annualized quarter-to-quarter contraction of 18.8% (-18.8%) in first-quarter 2014, subsequent activity rebounded by 19.2% in an annualized second-quarter 2014 sales surge. Growth since then has slowed markedly, returning to a contraction in first-quarter 2015 activity. Annualized third-quarter 2014 growth slowed to 14.7%, dropping to a minimal 0.3% annualized gain in fourth-quarter 2014 sales, and now contacting at an annualized pace of 15.6% (-15.6%) based on the first two months of first-quarter 2015 reported existing home sales.

The February 2015 headline annualized sales pace of 4,880,000 (a monthly pace of 406,667) also remained below the June 2005 pre-recession peak in sales by a simple 32.9%.

Headline Detail for February Existing-Home Sales. The March 23rd release of February 2015 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted headline monthly gain of 1.2%, following an unrevised decline of 4.9% (-4.9%) in January.

On a year-to-year basis, February 2015 sales increased by 4.7%, following an unrevised annual gain of 3.2% in January 2015.

The headline February 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 has become 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 for Third Month. The NAR estimated that the portion of total February 2015 sales in "distress" held at 11% (8% foreclosures, 3% short sales) for the third month, identical with the distribution of the numbers in January 2015 and December 2014, but down from 16% (11% foreclosures, 5% short sales) in February 2014. Reflecting continuing lending problems, related banking-industry and consumer-solvency issues (see full update of consumer liquidity conditions in prior *Commentary No. 705*), and the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales in February 2015 represented 26% of total activity, versus 27% in January 2015 and 35% in February 2014.

Bleak Outlook Continues for Home Sales, Based on Impaired Consumer Liquidity Conditions. Discussed along with the graphs in the *Opening Comments*, and as explored in some detail in prior *Commentary No. 705* and in *No. 692* 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 on both raw- and smoothed-data bases are included of February 2015 new-home sales (see the prior section) and February 2015 housing starts for single-unit construction (from *Commentary No. 705*).

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 have been, and still 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, though already have begun to hammer those expectations. Recent GDP excesses will not face downside revisions until the July 30, 2015 GDP benchmark revision, other than for the one monthly revision still pending for fourth-quarter 2014 GDP on Friday.

Headline consumer inflation—recently driven lower by collapsing prices for gasoline and other oil-price related commodities—likely hit or was close to a near-term low in 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 the prior labor data related *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:

New Orders for Durable Goods (February 2015). Reporting of February 2015 new orders for durable goods is scheduled for tomorrow, Wednesday, March 25th, by the Census Bureau. Net of the irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of down-trending stagnation.

Aircraft orders are booked for the long-term—years in advance—so they have only limited impact on near-term production. Further, by their nature, these types of orders do not lend themselves to seasonal adjustment. Accordingly, the durable goods measure that best serves as a leading indicator to broad production—a near-term leading indicator of economic activity—is the activity in new orders, ex-commercial aircraft. Net of volatility in commercial-aircraft orders in recent months, new orders have been reasonably stagnant and, again, should remain stagnant-to-down in headline February reporting.

UPDATED **- Gross Domestic Product—GDP (Fourth-Quarter 2014, Second Revision, Third Estimate).** The Bureau of Economic Analysis (BEA) will publish its third estimate of fourth-quarter 2014 GDP on Friday, March 27th. Market expectations are for a negligible upside second revision to 2.4% [Bloomberg], little more than statistical noise versus the headline real growth rate of 2.2% from the second estimate (initial growth estimate was 2.6%).

Where underlying fundamentals suggest that a fourth-quarter growth rate something on the plus-side of flat is realistic, revisions down to that level likely are not likely until the July 30th benchmark revision. Yet, in recent quarters, BEA first and second revisions to GDP growth estimates have been unusually volatile, signaling instabilities in the reporting system. The most-recent trend suggested by current BEA activity has been to the downside. Accordingly, though not based on new underlying reporting, other than revised, weaker production, which in turn is suggestive of less inventory building, reporting risks still run to the downside of 2.2%.

Potential reporting surprises also could lurk in the reporting of headline activity closely related to the GDP. Delayed by the poor-quality of the broad economic data available earlier, year-end initial reporting on fourth-quarter 2014 estimates of Gross National Product (GNP) and Gross Domestic Income (GDI) will accompany the March 27th report. 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.

