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

COMMENTARY NUMBER 711
Updated Outlook for General Economic Conditions

April 10, 2015

Data in the Week Ahead Should Trouble the Financial Markets

Market Sentiment on the Cusp of a "New" Recession?

First-Quarter GDP on Track for Worst Contraction
Since Depths of the Economic Collapse

PLEASE NOTE: The next regular Commentary, *scheduled for Wednesday, April 15th, will cover the March PPI, nominal retail sales and industrial production; followed by one on Friday the 17th, covering housing starts and the CPI, including related real retail sales and earnings.*

Best wishes to all — John Williams

OPENING COMMENTS—U.S. ECONOMY IN TROUBLE

Week Ahead Should Lock-In Early Expectations for Faltering First-Quarter GDP. Noted in *Commentary No. 710*, the much-weaker-than-expected headline March payroll employment suggested likely negative surprises for other key March economic series, many of which are due for release next week. Although there will be some positive monthly swings in reported March activity tied to improved weather, particularly within certain elements of the housing starts and retail sales, weather-stressed utilities in industrial production likely will see a relative contraction. On balance, pending headline economic reporting should disappoint market expectations (see the *Week Ahead* section).

Weaker-than-expected headline data in the next week should push consensus expectations meaningfully towards an outright quarter-to-quarter contraction for the April 29th initial estimate of first-quarter 2015 GDP growth. Once all revisions are in place, that first-quarter GDP contraction should be the deepest since the economic collapse from 2007 into 2009, and it would raise serious market concerns for a subsequent, second-quarter GDP downturn (release on July 30th) and formal recognition of a "new" recession. Quotation marks are used around the word new, here, only because the system never really recovered from the 2007 downturn, despite official pronouncements to the contrary (see *No. 692 Special Commentary: 2015 - A World Out of Balance* and *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*).

Implications from this circumstance are severely negative for the U.S. dollar, since happy presumptions of ongoing U.S. economic recovery and growth, and expectations of tightening actions by the Fed are likely to fall apart. Some minor pullback in the dollar already has taken place, following the recent signs of mounting U.S. economic weakness. Again, unanticipated by the global markets, these issues have begun to threaten domestic U.S. economic and monetary-policy expectations. Implications also will become increasingly negative for domestic banking-system stability, domestic fiscal policy and related borrowing needs by the U.S. Treasury.

Recent Data All Have Indicated Renewed Economic Downturn. Beyond the abysmal February labor numbers, other economic reporting of the last month has had particularly-negative implications for the initial estimate of first-quarter 2015 GDP growth. Discussed in various recent *Commentaries*, the trade deficit and construction-spending detail (see *No. 709*) already are locked in place for the initial GDP reporting, with the trade-deficit detail showing a negative contribution to quarterly GDP growth, and with a quarterly contraction in real construction spending suggesting the same.

Retail sales reporting through February 2015 showed a first-quarter sales contraction effectively to be locked-in, both before and after inflation adjustment (see *No. 703* and *No. 706*). Although early-consensus expectations appear to be for a sharp rebound in aggregate nominal sales for March, including autos—presumably reflecting some reversal of bad-weather impact in February—sales could be triple already-strong expectations, and the quarter still would show a sales contraction. Underlying reality is that the worst holiday shopping season (November and December 2014) since the economic collapse, and the ongoing fall-off in activity in January and February, have reflected consumer liquidity constraints—discussed in the later *Consumer Liquidity Conditions* section—much more so than bad weather. Both nominal (before-inflation) and real (after-inflation-adjustment) monthly March retail sales are likely to disappoint heavily-optimistic, early consensus expectations, which are somewhat in excess of one-percentage point (nominal growth), at the moment.

As an aside, the retail sales series will undergo a massive, and likely heavily-negative benchmark revision on April 30th, the day following the initial estimate of first-quarter GDP. Those revisions, however, largely will be of significance to the July 30th GDP benchmark revision (also likely to be highly negative).

With the Fed's index of industrial production undergoing unusually sharp downside revisions in the February reporting (see *No. 704*), the production series also appeared locked-in to a first-quarter contraction. Early expectations seem to be for a small headline contraction in March production, but this series is highly volatile in monthly reporting, particularly net of revisions. Further negative revisions, along with the headline March data, would intensify the quarterly-production downturn sharply, the first such contraction in production since the economic collapse of 2007 into 2009.

Housing starts are virtually worthless in month-to-month reporting, given extreme and usually statistically-insignificant monthly volatility, and regular, massive monthly revisions. The series did see some negative impact from the weather in the February reporting detail (see *No. 705*). As of February, however, the starts were on track for a quarterly contraction in the first-quarter, and that trend likely will remain intact, despite any weather-related rebounds in March.

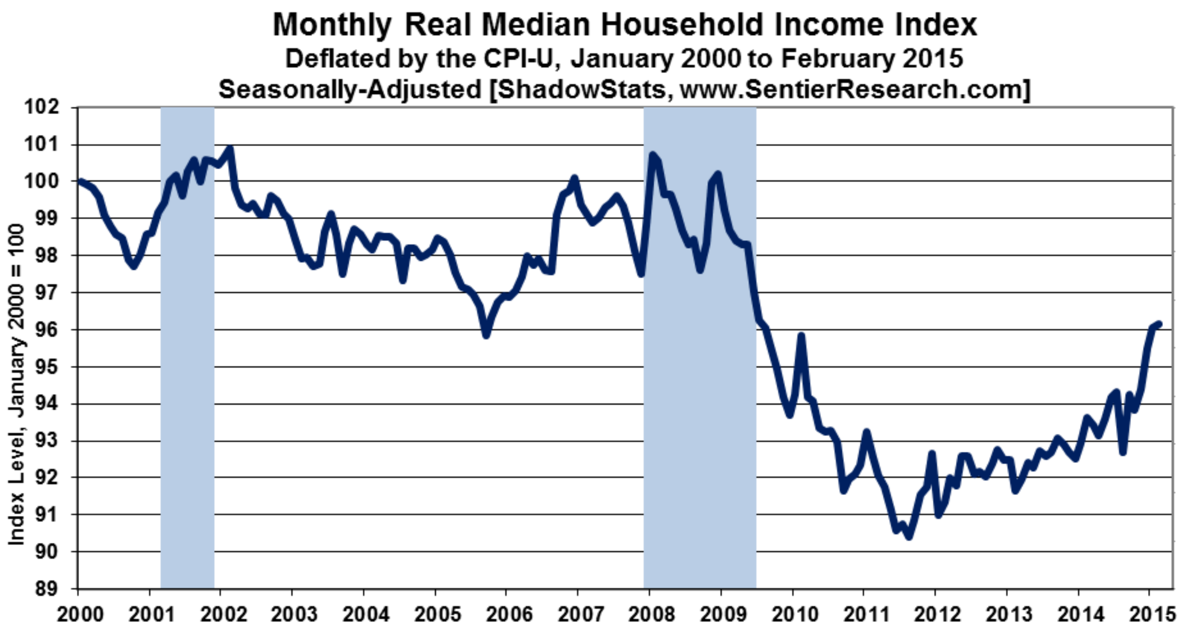
New orders for durable goods will not be updated for another two weeks, on March 24th. As reported for February (see *No. 707*), real orders were set for two, back-to-back quarterly contractions in fourth-quarter 2014 (in place) and first-quarter 2015 (close to being locked-in), signaling quarterly GDP contractions in both first- and second-quarter 2015 GDP. Separately, real year-to-year growth in retail sales stood at a low level of activity in February, providing a signal that historically has been highly reliable in indicating onsets of recessions. That area will be fully reviewed after next week's new reporting.

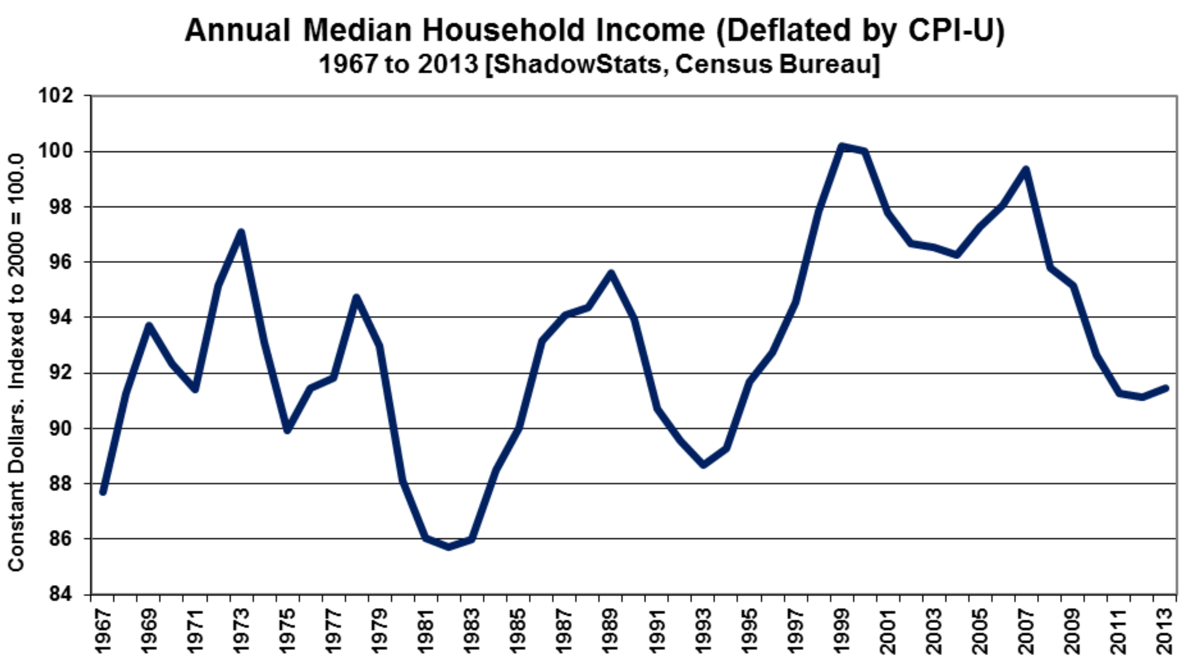
Consumer Liquidity Conditions—Major Stumbling Block to Resumption of Normal Business Activity. Updating *Commentary No. 705*, and as otherwise discussed regularly in these *Commentaries* (see detail in *No. 692 Special Commentary: 2015 - A World Out of Balance*), the dominant personal consumption component of U.S. economic activity has been constrained by structural liquidity issues since before the Panic of 2008.

Without real (inflation-adjusted) growth in household 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 and the related, personal-consumption-expenditures category of the GDP. Those sectors account for more than 70% of aggregate U.S. GDP activity.

The latest readings on consumer-confidence, consumer-sentiment and consumer credit outstanding, are updated, along with the most-recent real median household income series and quarterly household sector debt outstanding detail, as 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 graphs. The first plots monthly real median household income through February 2015, as reported by www.SentierResearch.com. The series has continued in low-level stagnation, remaining near its cycle low, despite some recent up-trending in month-to-month volatility. The recent relative "strength" was boosted temporarily by gasoline-price-driven , headline month-to-month contractions in CPI-U reporting, culminating in a headline monthly drop of 0.7% (-0.7%) in the January CPI, which more than accounted for the inflation-adjusted monthly increase in January 2015 real median income. Nominal income actually fell by 0.1% (-0.1%) in the January. With the CPI-U up by a headline 0.2% in February 2015, the monthly growth in the real income number for February flattened out.





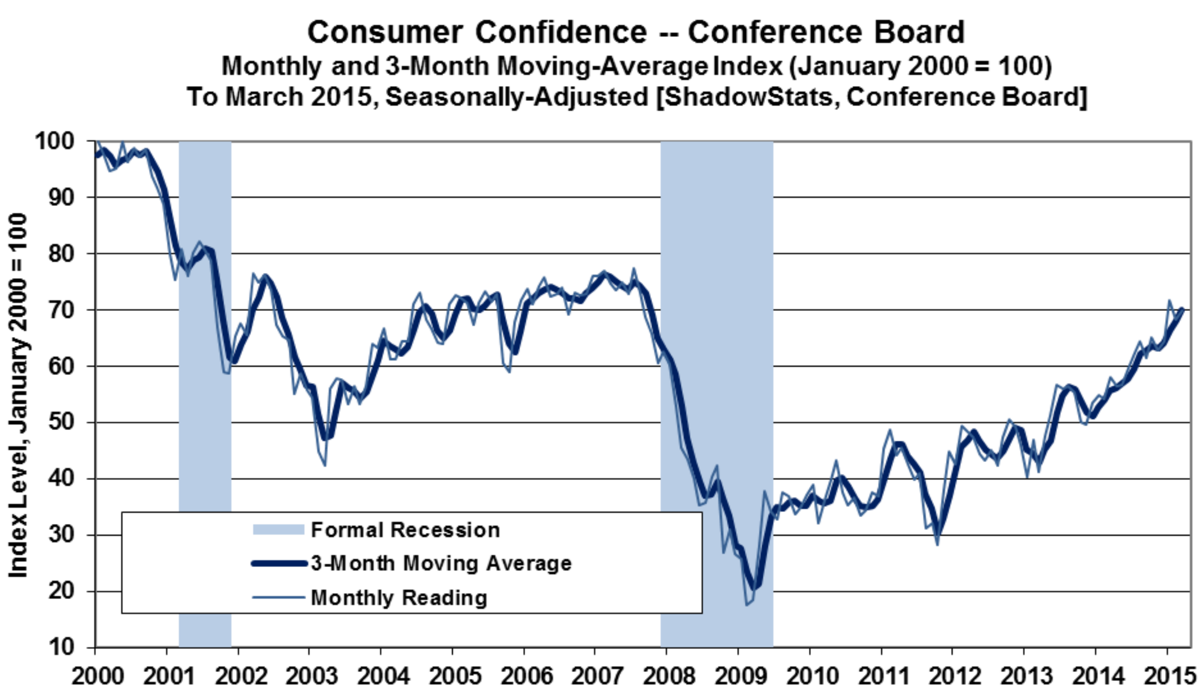
While lower gasoline prices have provided some minimal liquidity relief to consumers, indications are that any effective extra cash largely has been used to pay down unsustainable debt, not to fuel new consumption. Relief from low-priced gasoline likely will prove increasingly fleeting, as the U.S. dollar resumes its decline and petroleum prices continue to spike anew.

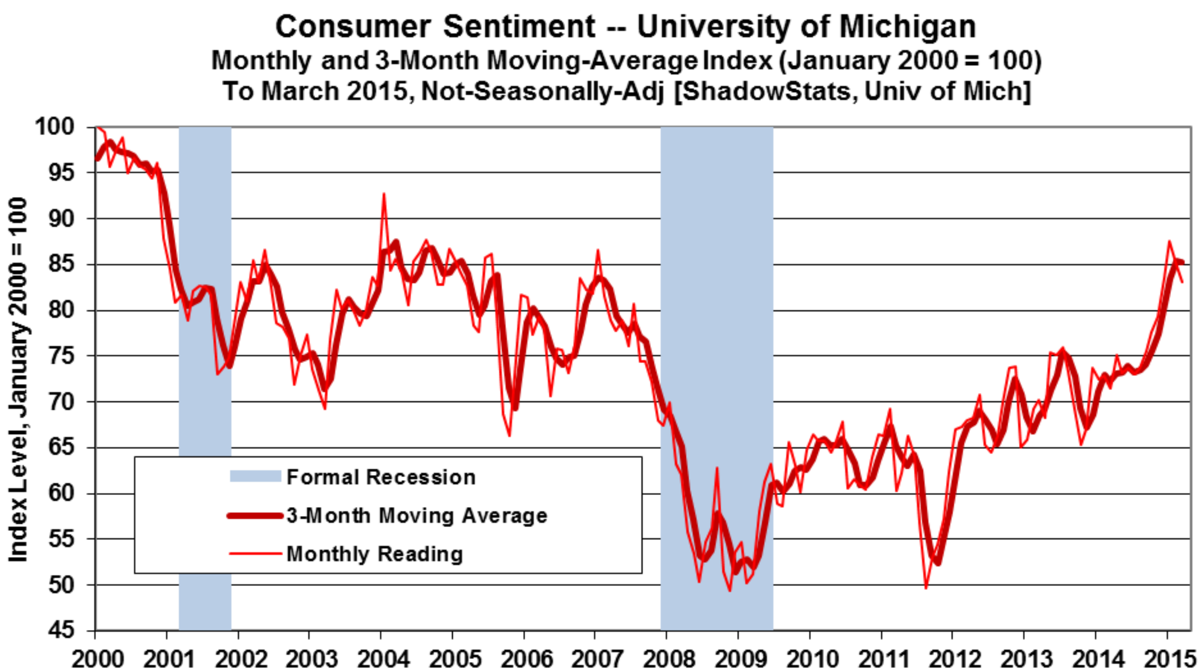
On a monthly basis, when headline GDP purportedly started its solid economic recovery in mid-2009, household income plunged to new lows and has yet to recover its recession or pre-recession highs either for the 2007 recession or the 2001 recession.

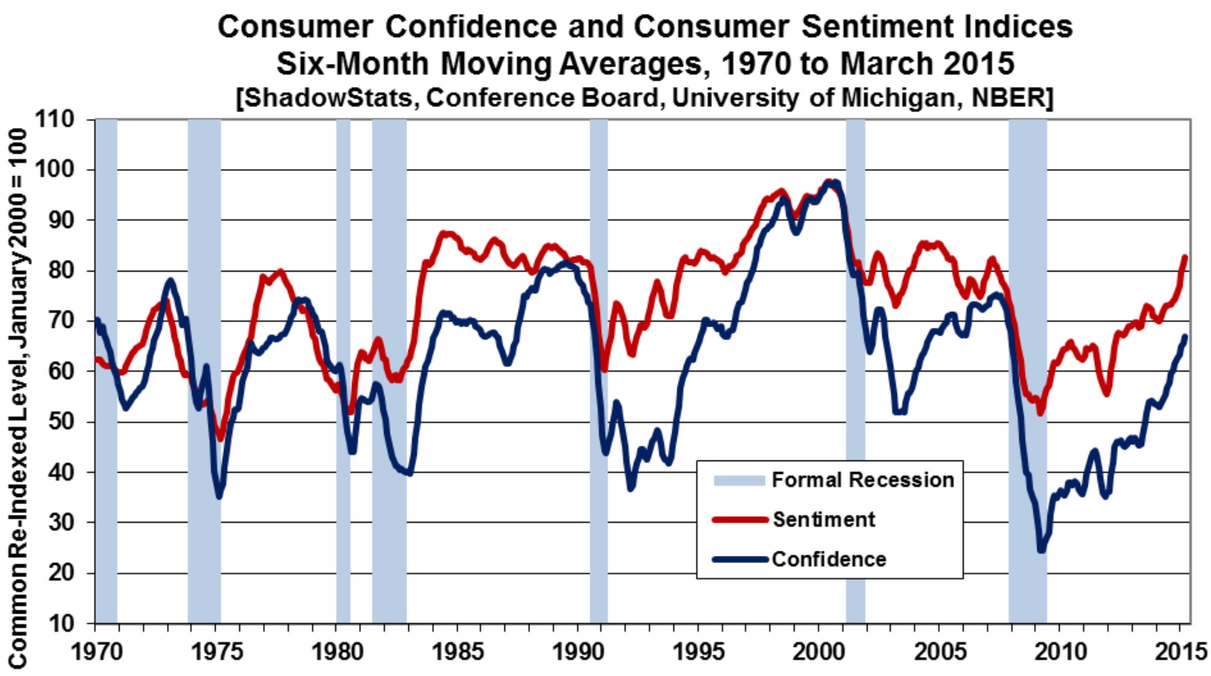
Shown in the second graph (preceding), the same series, published by the Census Bureau on an annual basis, deflated by headline CPI-U, confirmed that in 2013—the latest-available data—annual real median household income continued to hold at a low level of activity. In historical perspective, 2011, 2012 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 of these issues is found in *No. 692 Special Commentary*, *Commentary No. 658*, and in the *Hyperinflation 2014* reports, linked in the *Hyperinflation Watch*.

Shown in the next three graphs, the Conference Board's Consumer Confidence Index and the University of Michigan's Consumer Sentiment Index respectively notched higher and lower for the month of March 2015. Both series had 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. A more-negative toll from the recent reporting on headline economic stories likely will be seen in the April confidence and sentiment readings.

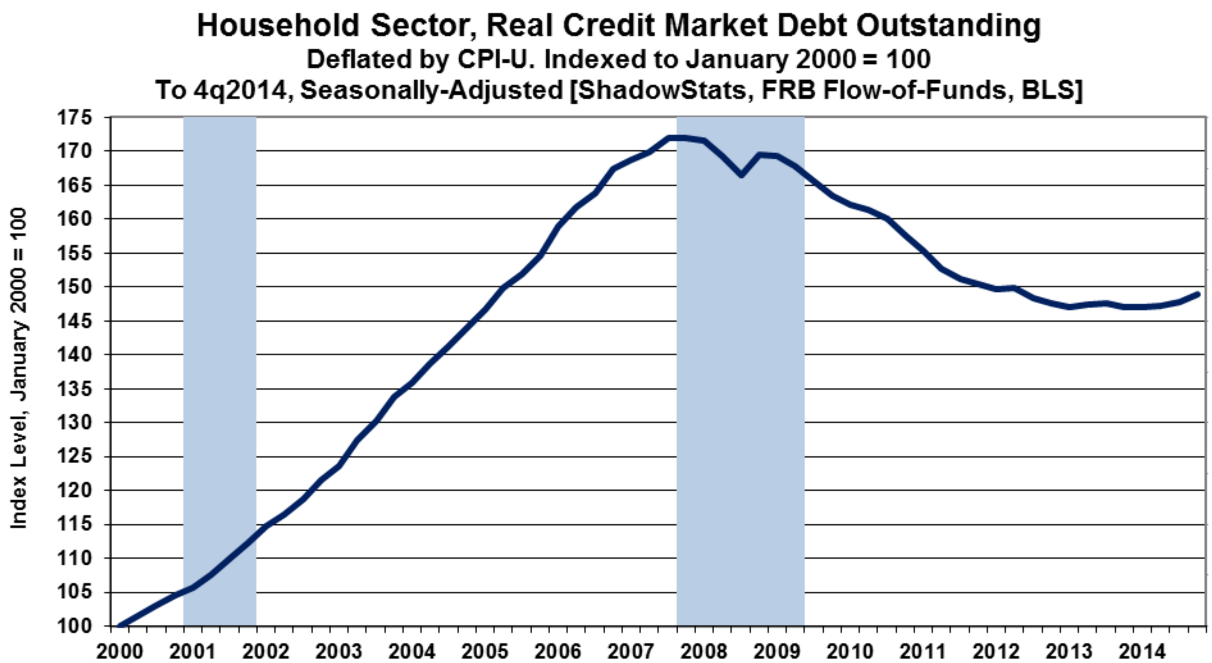






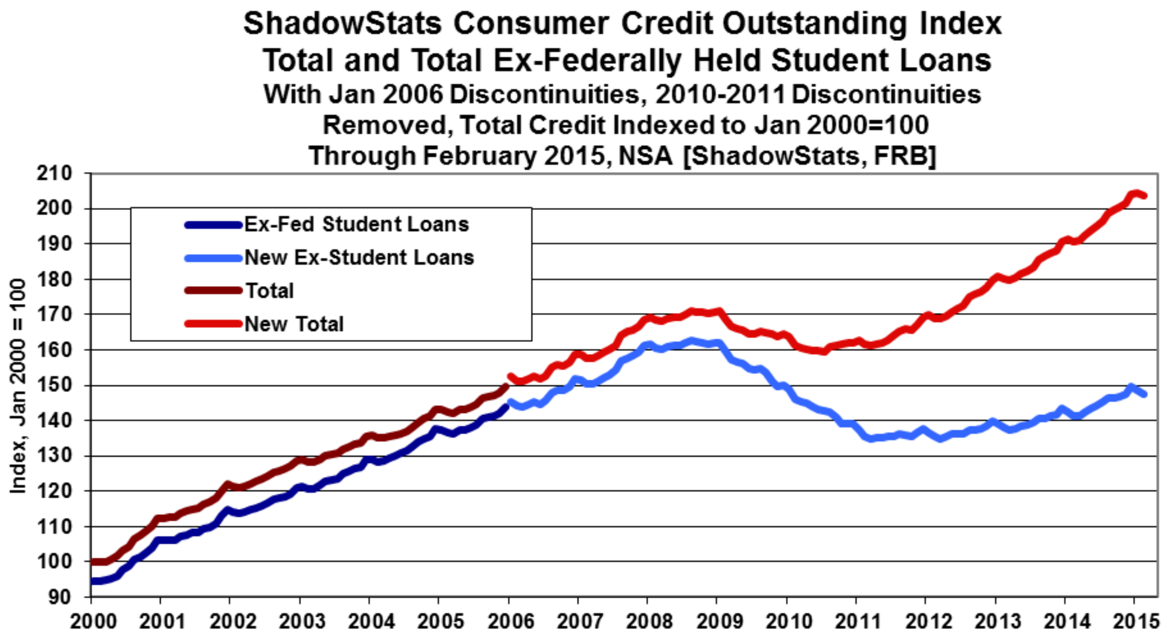
Smoothed for the irregular, short-term volatility, however, the two series still remain at levels seen typically in recessions. As suggested in the third graph (preceding), as plotted for the last 40 years, the latest readings of confidence and sentiment have not recovered levels that preceded any of 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 of recent quarters.

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., all deflated by the headline CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. Updated through fourth-quarter 2014, the graph reflects the most-recent detail available from the Federal Reserve's flow-of-funds data.



The second graph shows the regular plot of nominal consumer credit outstanding, updated through February 2015. 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 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. Accordingly, the dip evident in the latest February detail is something of a seasonality artefact.



Again, consumer liquidity woes remain the basic constraint on broad economic activity in the United States, which remains heavily consumer oriented. Without real growth in income and/or debt expansion and willingness to take on new debt; 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.

Today's Missive (April 10th). The bulk of today's *Commentary* has concentrated on updating the broad domestic and economic circumstance and the latest indicators of consumer conditions. The *Hyperinflation Outlook Summary* has been updated in tandem.

With no major economic releases in the current week, there is no *Reporting Detail* section, but the *Week Ahead* section previews a number of key economic releases for March, all with first-quarter GDP impact: nominal and real retail sales, industrial production, housing starts and the CPI and PPI inflation measures.

HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY

General Outlook Is Unchanged; Intensifying Economic Weakness Has Begun to Impact Market Perceptions of Fed Policy and U.S. Dollar Strength. Updated from the prior version, as published in *Commentary No. 706* of March 24th, text changes in this *Summary* are 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.

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*). Consistent with the above referenced *Special Commentaries*, the unfolding, weakening domestic-economic circumstance, in confluence with other fundamental issues, has begun to raise doubts in the markets as to the sustainability of the purported U.S. economic recovery, and as to the imminence of meaningful monetary tightening by the U.S. Federal Reserve. As result, the U.S. dollar has backed off its recent highs, with some related upside pressure having been seen on oil prices.

Domestic economic data should continue to falter, increasingly moving market expectations towards an imminent new recession, not only further pummeling expectations for a significant tightening in Fed policy, but also renewing expectations for a more-accommodative Fed. While such may help to fuel further stock-market mania, any resulting rallies in equity prices likely will be more than offset in real terms, by percentage declines in the exchange-rate value of the U.S. dollar or in the eventual increases in headline consumer inflation.

Faltering expectations on more-conservative Federal Reserve policies and on the direction of domestic economic activity, should place mounting and eventually massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the Panic of 2008. Physical gold and silver, and holding assets outside the U.S. dollar, remain the ultimate primary hedges against an eventual total loss of U.S. dollar purchasing power. Initially, these circumstances should unwind the sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014, and broadly related selling pressures seen in the gold and silver markets.

A crash back to recognition of more-realistic domestic-economic circumstances appears to have begun, 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. Further, a sharp deterioration in the near-term outlook for domestic and global political stability continues and is of meaningful near-term risk for providing further fuel to 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, payroll employment and increasingly the headline GDP.

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 nine months, pushing the dollar once again to historic lows. Again, 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. 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, purportedly 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 increasingly is finding 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.

Unexpected economic weakness—a renewed downturn—also savages prospective federal budget deficit prognostications (particularly the 10-year versions). It also throws off estimates of U.S. Treasury funding needs and estimates as to how long the Treasury effectively can dodge the limits of the recently re-imposed debt ceiling. Current fiscal "good news" remains from cash-based, not GAAP-based and accounting projections and is heavily impacted by changes in business activity.

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, <u>any significant, renewed market speculation as to an added round of Federal Reserve quantitative easing, QE4, may 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 thought it could, with continual, negative impact on the U.S. economy.</u> The easings to date, however, appear to have been largely a prop to the increasingly unstable equity markets.

<u>Again,</u> 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.

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. <u>That process appears to have begun to reverse.</u>

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. <u>That process may have started with the shift in Swiss National Bank policy early in the year, but it has become dominated by increasingly-negative global perceptions of stability in U.S. economic activity and Federal Reserve monetary policy.</u> 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 the *Opening Comments*). <u>Sharply-negative economic reporting shocks, versus softening consensus forecasts, still remain a heavily-favored, proximal trigger for the intensifying the unfolding dollar debacle.</u>

- ***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 <u>did not alter</u> the systemic unwillingness to address 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, <u>while many in Washington look to continue increasing spending and to take on new, unfunded liabilities.</u> 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*). This circumstance now is operating in the context of the formal constraint of a renewed debt ceiling.

- ***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 versus Russia and extraordinarily-volatile circumstances in the Middle East. U.S. response to Russian activity in the Ukrainian situation likely was 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. These situations have yet to run their full courses, and they have the potential for rapid and massive negative impact on the financial and currency markets.

- ***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 should 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.

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WEEK AHEAD

Headline Reporting and Revisions Should Trend Much Weaker versus a Still Overly-Optimistic Economic Consensus; Inflation Will Rise Anew, Following the Bottoming of Oil-Prices. Shifting more to the downside, amidst wide increasingly-negative fluctuations in the numbers, market expectations for business activity have been, and still remain overly optimistic. They still exceed any potential, underlying economic reality, even though downside corrective revisions and an accelerating pace of downturn in broad-based, monthly headline economic reporting already have begun to hammer those expectations. Recent GDP excesses will not face downside revisions until the July 30, 2015 GDP benchmark revision, but expectations for headline growth estimates of first- and second-quarter 2015 increasing should shift quickly to the downside, into negative territory (see *Opening Comments*).

Headline consumer inflation—recently driven lower by collapsing prices for gasoline and other oil-price related commodities—likely hit its near-term low in January 2015, moving minimally off bottom in February, and likely slightly more off bottom in March. Significant upside inflation pressures should resume as oil prices rebound, a process that already appears to be underway, tentatively, and one that would accelerate rapidly with the 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:

Retail Sales—Nominal and Real (March 2015). The Census Bureau has scheduled release of nominal (not-adjusted for inflation) March 2015 retail sales for Tuesday, April 14th, which will be covered in ShadowStats *Commentary No. 712* of April 15th. Real (inflation-adjusted) retail sales will be published in ShadowStats *Commentary No. 713* of April 17th, in conjunction with the detail on headline CPI-U reporting for March.

Early market expectations appear to be for a major rebound in the headline nominal March sales numbers, by an order of magnitude of a full percent or more, led by a jump in auto sales. Where such would be the first month-to-month nominal gain for the series in four months, a much-weaker-than-expected gain in the series usually is a good bet. Net of inflation adjustment, real retail sales likely will have contracted again. First-quarter 2015 retail sales activity likely contracted versus fourth-quarter 2014 activity, both before and after consideration for inflation adjustment.

Constraining sales activity, the consumer remains in an extreme liquidity bind, as updated in today's *Opening Comments* and discussed in *No. 692 Special Commentary: 2015 - A World Out of Balance*. Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, let alone in residential construction, as discussed in the detail for March housing starts.

Producer Price Index—PPI (March 2015). The March 2015 PPI will be released on Tuesday, April 14th, by the Bureau of Labor Statistics (BLS), and it will be covered in ShadowStats *Commentary No. 712* of April 15th, as well.

While the collapse in oil and gasoline prices appeared to have bottomed out in February, pricing pressures were mixed in March. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices fell by 3.9% (-3.9%) and 5.5% (-5.5%) for the month, along with a 10.7% increase in unadjusted monthly-average, retail-gasoline prices (Department of Energy). PPI seasonal adjustments for energy costs in March usually are negative. That, combined with the inverse inflation reaction of shifting oil prices in the services sector, where falling oil prices often are reflected in rising margins (services inflation), suggests little change in the energy-related, headline March PPI.

With some monthly inflation added in food, "core" goods (everything but food and energy), a small gain in the headline PPI is a fair bet and roughly is in line with the early consensus.

Index of Industrial Production (March 2015). On Wednesday, April 15th, the Federal Reserve Board will release its estimate of the index of industrial production for March 2015. Early market expectations appear to be for a small headline contraction, but risks remain high for a further downside reporting surprise in headline activity, very possibly a much-larger monthly contraction and/or significant downside revisions to prior reporting of recent months.

Whatever the headline results, activity most meaningfully is viewed net of extreme swings in utility usage, resulting from, or reversing, the prior month-to-month effects of "unseasonable weather." Weather patterns have been unusual recently and have added to monthly volatility of the series, including a meaningful positive contribution to headline February production. March utility usage could be a relative negative contribution.

Residential Construction—Housing Starts (March 2015). The Census Bureau will release March 2015 residential construction detail, including housing starts, on Thursday, April 16th. The series will be covered in ShadowStats *Commentary No. 713* of April 17th. In line with common reporting experience of recent years, monthly results are likely to be unstable, not statistically meaningful, but generally consistent with down-trending stagnation in the series, particularly when viewed in the context of a six-month moving average of activity. This series also is subject to regular and extremely-large prior-period revisions.

As discussed in *Commentary No. 660* on the August 2014 version of this most-unstable of monthly economic series, the monthly headline reporting detail here simply is worthless, again, best viewed in terms of a six-month moving average. Not only is month-to-month reporting volatility extreme, but also those headline monthly growth rates rarely come close to being statistically-significant.

That said, early market expectations are for a sharp rebound in monthly activity, reversing a large hit to February activity, which was savaged in some regions by horrendous weather conditions. Allowing for some rebound, the numbers likely still will disappoint expectations, suffering from unimproved consumer conditions. The general pattern of down-trending stagnation most likely continued.

In the wake of a 75% collapse in aggregate activity from 2006 through 2008, and of an ensuing seven-year pattern of housing-starts stagnation at historically low levels, little has changed. Discussed in the *Opening Comments*, there remains no chance of a near-term, sustainable turnaround in the housing market, until there is a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

Consumer Price Index—CPI (March 2015). The March 2015 CPI is scheduled for release on Friday, April 17th, by the Bureau of Labor Statistics (BLS). The headline CPI-U should be on the plus-side for the second month, with early expectations running to the upside of 0.2%, reflecting resurgent in gasoline prices, which still should be to the upside after heavy offsets from negative seasonal-adjustment factors.

Gasoline prices moved higher, on average, in March 2015, up by 10.65% for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). BLS seasonal adjustments to gasoline prices in March traditionally are sharply negative, and, shy of BLS "intervention analysis" mitigating the downside adjustment pressures, seasonally-adjusted gasoline prices likely will have risen in the month by about 4.3%, which by itself would add about 0.15% to the headline CPI-U monthly inflation rate. Add in higher food and “core” (net of food and energy) inflation, and early expectations of 0.3% [MarketWatch] are not unreasonable.

Annual Inflation Rate. Year-to-year, CPI-U inflation would increase or decrease in 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, again, with the early consensus sitting at an even 0.3%**.**

