John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 712
March Nominal Retail Sales, Industrial Production, PPI

April 15, 2015

Quarterly Retail Sales and Industrial Production Last Dropped Together in First-Quarter 2009, When Real GDP Contracted 5.5% (-5.5%)

Nominal Retail Sales Fell an Annualized 5.0% (-5.0%) in First-Quarter 2015; March Annual Growth Was Weakest Since Economic Collapse

Real Retail Sales Also Locked-In to First-Quarter Contraction

Pummeled by Declining Manufacturing and Oil and Gas Production, Industrial Production Fell an Annualized 1.0% (-1.0%) in First-Quarter 2015

First-Quarter 2015 GDP Still on Track for Renewed Downturn

March PPI Inflation Was Almost Unremarkable

PLEASE NOTE: The next regular Commentary*, scheduled for Friday, April 17th, will cover March housing starts and the CPI, including related real retail sales and earnings.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Odds Continue to Mount Strongly in Favor of First-Quarter GDP Contraction. Discussed extensively in *Commentary No. 711*, contractions in first-quarter 2015 activity were likely for most economic series, and nominal retail sales (also effectively real retail sales) and industrial production now have their quarterly downturns in place, as reviewed in today's missive. The retail and production numbers join the negative headline detail from two months (through February) of the real (inflation-adjusted) trade deficit and construction spending. Such is all the detail that will be available from those particular series before the "advance" estimate of first-quarter 2015 GDP on April 29th.

Still pending is the magnitude of the formal downturn in first-quarter real retail sales, and relative first-quarter activity in housing starts. With initial quarterly detail on those numbers being published in the next two days, ShadowStats will review and assess the prospects for an outright contraction in the initial headline reporting of first-quarter GDP in Friday's, April 17th, *Commentary No. 713*. A contraction in first-quarter GDP, at least in the revisions that will follow the initial GDP reporting, is a virtual certainty at this point.

Quarterly nominal retail sales and industrial production contracted together in first-quarter 2015. The last time happened was six years ago, in first-quarter 2009. Then at the depths of the recent economic collapse, the corresponding contraction in first-quarter 2009 GDP was an annualized 5.5% (-5.5%).

Today's Missive (April 15th). Today's *Commentary* concentrates on the reporting detail related to nominal March retail sales, industrial production and the producer price index (PPI). The outlook for initial reporting of first-quarter 2015, reviewed in prior *Commentary No. 711*, will be revisited with Friday's *Commentary No. 713*, with actual numbers for first-quarter 2015 housing starts and real retail sales in place.

The *Hyperinflation Outlook Summary* has not been updated since *No. 711*. The *Week Ahead* section previews the pending March reporting on the housing starts and the CPI inflation measure.

Nominal Retail Sales—March 2015—Some Bounce in March, but Quarterly Contraction and Weak Annual Growth Were Worst Since the Collapse. Following the industry 's weakest Holiday Season since the economic collapse from 2007 into 2009, and in the context of a January monthly sales plunge of 0.8% (-0.8%), and a revised headline February 2015 drop of 0.5% (-0.5%), nominal retail sales (before inflation adjustment) bounced back by 0.9% in March 2015. That placed nominal first-quarter 2015 sales in an annualized quarterly contraction of 5.0%, the worst quarterly showing since the depths of the recent economic failure. It also locked-in a quarterly contraction in real terms (after inflation adjustment) for the quarterly sales, as will be reported along with the March CPI-U on Friday, April 17th.

Again, with first-quarter 2015 contractions likely for most economic series, nominal retail sales (and effectively real retail sales) and industrial production now have their quarterly downturns in place. As discussed also in the industrial production section, the last time that both quarterly nominal retail sales and industrial production contracted together was in first-quarter 2009, at the depths of the recent economic collapse. The last time that both quarterly real retail sales and industrial production contracted together was in second-quarter 2009, at the formal trough of the recent economic collapse.

Separately, despite the headline nominal monthly gain, year-to-year growth in nominal sales slowed to 1.4% in March, down from a revised 1.9% in February 2015, again, the worst showing, with annual growth slowing, since the economic collapse, and a solid signal of an unfolding recession.

Late-market expectations had been for a monthly gain of 1.1% [Bloomberg], so the headline detail was on the downside of consensus.

Discussed in the *Seasonal-Factor Distortions* section of the *Reporting Detail*, headline growth was exaggerated in March by about 0.4%, tied to the misuse of concurrent seasonal-factor adjustments. Since December 2014, historical-adjustment revisions have been used repeatedly, each month, to mute the headline rates of decline, or to boost the headline rate of gain. That said, the purported aggregate gain in headline March 2015 retail activity was broadly based, dominated by a monthly upturn in automobile sales, with negative activity for grocery stores, gas stations, nonstore retailers and electronics and appliance stores.

Structural Liquidity Issues Constrain Consumer Economic Activity. Discussed in detail in prior *Commentary No. 711*, the underlying issue with current retail sales activity remains intense, structural-liquidity woes besetting the consumer. That circumstance—in the last seven-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity.

Without real growth in income, and without the ability and/or willingness to offset declining purchasing power with debt expansion, the consumer lacks the ability to fuel traditional, consumption-based growth or recovery in U.S. economic activity, including retail sales and the still-dominant personal-consumption account of the GDP. 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.

Nominal (Not-Adjusted-for-Inflation) Retail Sales—March 2015. In nominal terms—before adjustment for consumer inflation—headline March 2015 retail sales—showed a statistically-significant, seasonally-adjusted, headline monthly gain of 0.86%. Such followed a revised, statistically-significant monthly decline of 0.46% (-0.46%) in February 2015, with the headline monthly change for January 2015 revising to a decline of 0.80% (-0.80%). Net of prior-period revisions, the monthly gain in March was 1.00%.

Year-to-Year Annual Change. Year-to-year sales growth in March 2015, however, slowed to a statistically-significant 1.37%, versus a revised gain of 1.89% in February, and a revised 3.62% in January 2015. The revisions to annual change here were due primarily to the continuous monthly shifting of seasonal-adjustment factors as misused in the regular Census Bureau reporting of the series (again, see the *Seasonal-Factor Distortions* section).

Annualized First-Quarter Contraction. The pace of annualized nominal retail sales change in first-quarter 2015 was a contraction of 5.0% (-5.0%) [down by 4.99% (-4.99%) at the second decimal point], the worst quarterly showing since the economic collapse. Based solely on January and February reporting, the quarterly contraction had been estimated at a pace of 6.06% (-6.06%), versus a downside pace of 4.81% (-4.81%), based solely on the initial January reporting. Fourth-quarter 2014 versus the third-quarter retail sales rose at an annualized nominal pace of 1.85%, with third-quarter versus second-quarter growth at a 4.27% annualized pace.

Real (Inflation-Adjusted) Retail Sales—March 2015. The headline 0.86% gain in March 2015 retail sales was before accounting for inflation. Real retail sales change in March will be published along with the headline estimate of consumer inflation for the March 2015, in *Commentary No. 713* of Friday, April 17th. As discussed in the *Week Ahead* section, headline March CPI-U likely will be positive, but not enough to offset fully the headline nominal gain in March retail sales.

Nonetheless, a quarter-to-quarter contraction in first-quarter 2015 real retail sales effectively is locked-in, and an unusually-low annual real growth in March 2015 retail sales should reconfirm the ongoing, historical warning signal of imminent recession being generated by the series.

Index of Industrial Production—March 2015—First Quarterly Decline Since Formal Trough of Economic Collapse. Reflecting plunging oil and gas production and declining manufacturing, first-quarter 2015 industrial production fell at an annualized pace of 1.0% (-1.0%) [down by 0.97% (-0.97%) at the second decimal point].

Described by the Federal Reserve in their press release: "For the first quarter of 2015 as a whole, industrial production declined at an annual rate of 1.0 percent, the first quarterly decrease since the second quarter of 2009 [headline trough of the recession]. The decline last quarter resulted from a drop in oil and gas well drilling and servicing of more than 60 percent at an annual rate and from a decrease in manufacturing production of 1.2 percent."

Annualized, quarterly positive production growth for fourth-quarter 2014 revised to 4.6%, versus an unrevised 4.1% annualized gain in third-quarter 2014. Earlier estimates of trending first-quarter 2015 activity were on track for an annualized contraction of 0.2% (-0.2%) as of February reporting, and on track for a 1.4% annualized quarterly expansion as of the initial January 2015 reporting.

Again, the last time quarterly industrial production and nominal retail sales both contracted in tandem was in first-quarter 2009, with accompanying real GDP falling then at an annualized pace of 5.43%. Discussed earlier, first-quarter 2015 contractions are likely for most economic series, with nominal retail sales (and effectively real retail sales) and industrial production now with their quarterly downturns in place. The last time that both quarterly real (as opposed to nominal) retail sales and industrial production contracted together was in second-quarter 2009, at the formal trough of the recent economic collapse.

Industrial Production—Headline Detail for March 2015. The initial estimate of headline, seasonally-adjusted, industrial production for March 2015 showed a decline of 0.64% (-0.64%), following a revised 0.10% gain in February, and a revised decline of 0.41% (-0.41%) in January. Net of prior-period revisions, March 2015 production contracted month-to-month by 0.55% (-0.55%). The headline March contraction was weaker than consensus expectations for a monthly decline of 0.3% (-0.3%) [Bloomberg].

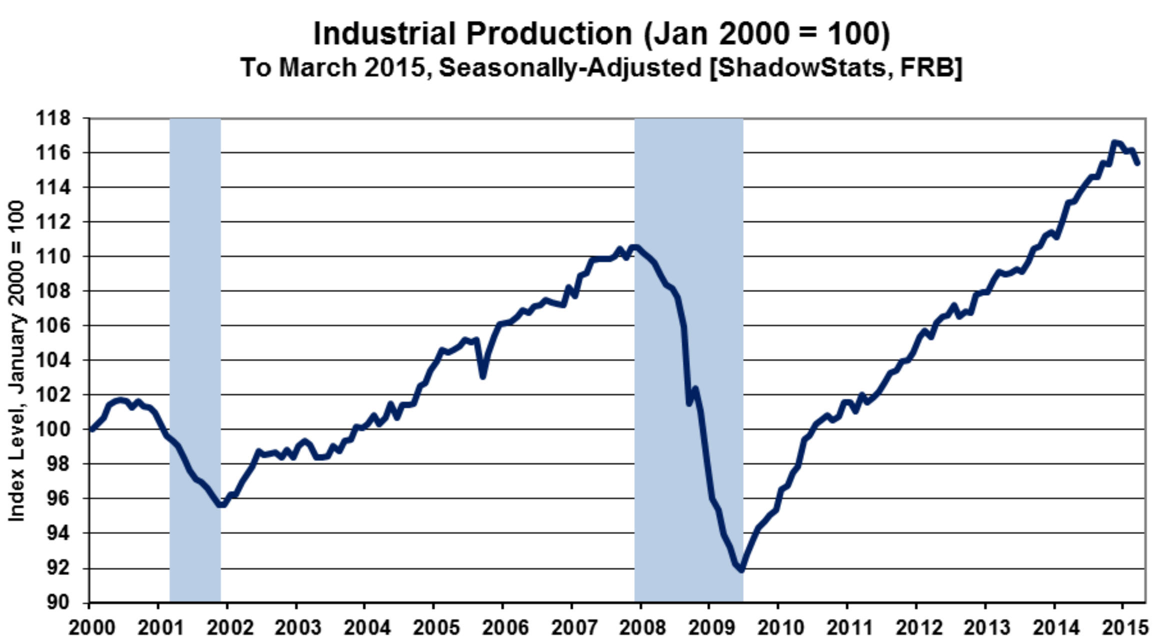
By major industry group, the headline March 2015 monthly decline of 0.6% (-0.6%) [February 2015 gain of 0.1%] in aggregate production was composed of a manufacturing gain of 0.1% in March [February decline of 0.2% (-0.2%)]; a March decline of 0.7% (-0.7%) [February decline of 1.6% (-1.6%)] in mining (oil and gas production); and a March decline of 5.9% (-5.9%) [offsetting a revised February gain of 5.7%] in unseasonable-weather-affected utilities.

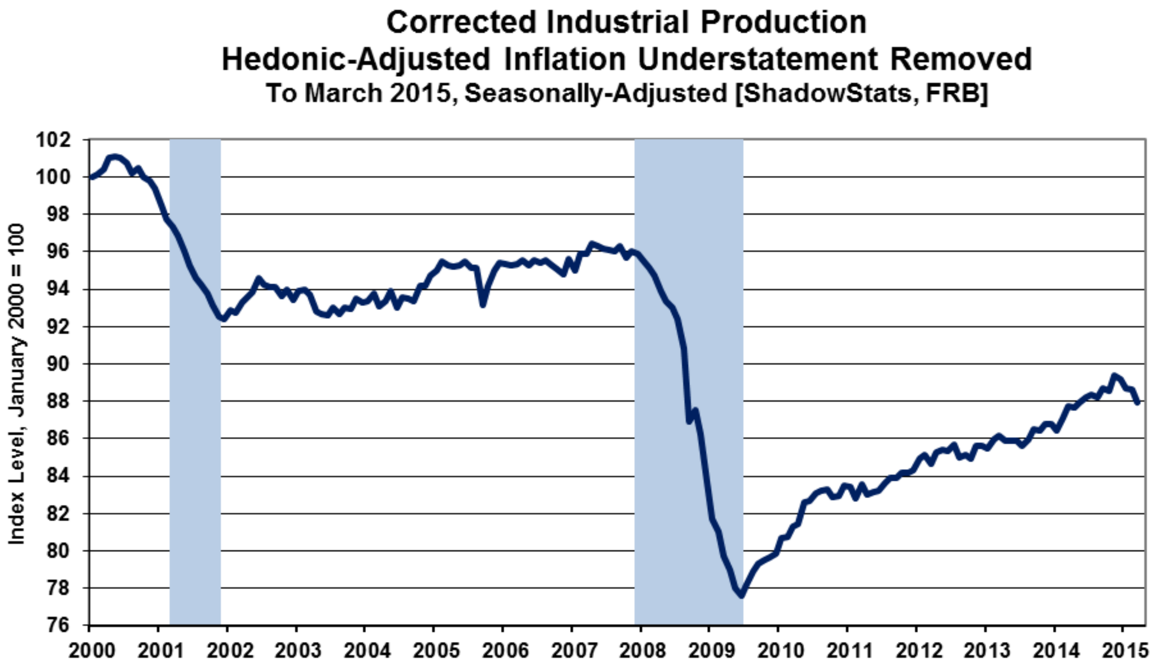
Year-to-year growth in March 2015 production was 2.05%, versus a revised 3.56% in February, and a revised annual gain of 4.42% in January 2015. Year-to-year or annual growth in the headline production series has slowed sharply, to levels that normally precede or accompany the onset of headline recessions.

Production Graphs—Corrected and Otherwise. The *Reporting Detail* section includes the regular graphs of the industrial production level and year-to-year change, through March 2015. The level of headline production shows a topping-out process late in 2014, along with a renewed downturn in first-quarter 2015.

The two graphs that follow in this section address reporting quality issues tied just to the overstatement of headline growth that directly results from using too-low an estimate of inflation in deflating an economic series.

Hedonic quality adjustments to inflation understate the inflation used in deflating some components of the index of industrial production. That has the effect of overstating the resulting inflation-adjusted growth in the headline industrial production series (see *Public Comment on Inflation* and the *Chapter 9* of *2014 Hyperinflation Report—Great Economic Tumble*).





The first graph preceding shows official, headline industrial production reporting, but indexed to January 2000 = 100, instead of the Fed's formal index that is set at 2007 = 100. The 2000 indexing simply provides for some consistency in this series of revamped graphics; it does not affect the appearance of the graph or reported growth rates (as can be seen versus the graphs in the *Reporting Detail* section). The second graph is a version of the first, corrected for the understatement of the inflation used in deflating the production index. Estimated hedonic-inflation adjustments have been backed-out of the official industrial-production deflators used for headline reporting.

The "corrected" second graph shows some growth in the period subsequent to the official June 2009 near-term trough in production activity. Yet, that upturn has been far shy of the full recovery and the renewed expansion reported in official GDP estimation (see *Commentary No. 708*). Unlike the headline industrial production data and the headline GDP numbers, corrected production levels have not recovered pre-recession highs. Instead, corrected production entered a period of protracted low-level stagnation in 2010, with irregular quarterly contractions seen through 2014, and an irregular uptrend in the stagnation into 2014, with a jump into year-end 2014 reporting and now revised topping-out and pullback in early-2015. While the corrected series remains well shy of a formal recovery, both the official and corrected series suffered renewed quarterly contractions in first-quarter 2015.

Producer Price Index (PPI)—March 2015—Otherwise-Squirrelly Numbers Had a Somewhat-Normal Month with Relatively-Calm Energy Impact. With component price movements well shy of recent extremes, the headline, monthly March 2015 PPI rose across all three Final Demand categories: Goods, Services and Construction.

From a practical standpoint, though, the aggregate Final Demand Producer Price Index has little relationship to real world activity. The problem has been that the services sector, which is the dominant component of the index, reflects profit margins, not prices. Seen in recent months, major movements in oil-related prices on the goods side had a something of self-offsetting impact on the services side. Rapidly falling prices, while deflationary, also had an inflationary counterpart in the widening of trade margins. Rapidly rising prices had the reverse effect, with rising oil costs moving faster that than price hikes to the next level of distribution or sales, along with narrowed profit margins. Narrower margins are deflationary on the services side, even though the nature of the narrowing is suggestive of higher prices ahead.

March 2015 Headline PPI Detail. The seasonally-adjusted, month-to-month, headline Producer Price Index (PPI) Final Demand inflation for March 2015 rose by 0.18%, versus a decline of 0.45% (-0.45%) in February.

The impact of seasonal adjustments on the headline monthly March aggregate PPI change was negative, with the unadjusted month-to-month March inflation rising by 0.46%, versus a drop of 0.27% (-0.27%) in February. Also on a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year headline PPI inflation dropped by 0.81% (-0.81%) in March 2015, versus a decline of 0.64% (-0.64%) in February 2015.

In terms of the three major subcategories for March 2015 Final Demand PPI, headline monthly Final Demand Goods inflation rose by 0.28%, Final Demand Services inflation rose by 0.09%, and Final Demand Construction inflation rose by 0.09%.

Final Demand Goods (Weighted at 34.69%). Running somewhat in parallel with the old Finished Goods PPI series, headline monthly Final Demand Goods inflation rose by 0.28% in March 2015, having contracted by 0.37% (-0.37%) in February. There was an aggregate negative impact on the headline March 2015 reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, March final demand goods inflation rose by 0.55% for the month.

Unadjusted, year-to-year goods inflation was down by 4.37% (-4.37%) in March 2015, versus an annual decline of 4.23% (-4.23%) in February 2015.

Headline seasonally-adjusted monthly changes by major components of March 2015 Final Demand Goods:

- "Foods" inflation dropped by 0.75% (-0.75%) in March 2015, versus a decline of 1.57% (-1.57%) in February, with March's headline monthly contraction made more negative by seasonal adjustments. Unadjusted, March food inflation fell by 0.25% (-0.25%) for the month. Unadjusted and year-to-year, March 2015 foods inflation fell by 1.42% (-1.42%), having gained 0.42% in February 2015.
- "Energy" inflation rose by 1.52% in March 2015, having been unchanged at 0.00% month-to-month in February 2015, with the March reading hit heavily by negative seasonal adjustments. Unadjusted, March energy inflation rose by 3.41% month-to-month. Unadjusted and year-to-year, March 2015 energy inflation was down by 21.74% (-21.74%), versus a February 2015 annual contraction of 22.37% (-22.37%).

- "Less foods and energy," or "core" goods inflation rose by 0.18% in March 2015, having contracted by 0.09% (-0.09%) in February. Seasonal adjustments were a positive for monthly core inflation, with an unchanged 0.00% level for the unadjusted March number. Unadjusted and year-to-year, March 2015 core inflation rose by 0.55%, versus an annual gain of 0.37% in February 2015.

Final Demand Services (Weighted at 63.29% of the Aggregate). Headline monthly Final Demand Services inflation rose by 0.09% in March 2015, versus a decline of 0.45% (-0.45%) in February. The overall impact on the March month-to-month services inflation reading from underlying seasonal-factor adjustments was negative, with an unadjusted gain of 0.37% in the current month. The BLS reported that 60% of the increase in March services inflation was due to a 4.1% increase in prices for portfolio management. Such likely reflects primarily the poor quality, instabilities and nonsense involved in the surveying for the broad series.

Year-to-year unadjusted services inflation was 1.01% in March 2015, versus 1.20% in February 2015.

The headline monthly changes by major component for March 2015 Final Demand Services inflation:

- "Services less trade, transportation and warehousing" inflation rose by 0.28% in March 2015, the same as the 0.28% gain in February. Seasonal-adjustment impact on the adjusted March detail was negative, where the unadjusted monthly gain in March 2015 was 0.37%. Unadjusted and year-to-year, March 2015 "other" services inflation gained 1.12%, versus a 1.03% annual gain in February 2015.
- "Transportation and warehousing" inflation declined month-to-month by 0.17% (-0.17%) in March 2015, following a drop of 1.45% (-1.45%) in February 2015. Seasonal adjustments had a negative impact, with an unadjusted monthly gain of 0.61% in March. Unadjusted and year-to-year, March 2015 transportation inflation fell by 1.36% (-1.36%), versus an annual contraction of 0.60% (-0.60%) in February 2015.
- "Trade" inflation dropped by 0.18% (-0.18%) month-to-month in March 2015, having been down in February by 1.51% (-1.51%). Seasonal adjustments had a negative impact here, where the unadjusted inflation change in March was for a month-to-month increase of 0.18%. Unadjusted and year-to-year, March 2015 trade inflation rose by 1.27%, having gained 2.21% in February 2015.

Final Demand Construction (Weighted at 2.02% of the Aggregate). Although a fully self-contained subsection of the Final Demand PPI, Final Demand Construction inflation receives no formal headline coverage. Nonetheless, headline numbers are published, and month-to-month construction inflation rose by 0.09% in March 2015, the same 0.09% pace as in February. The impact of seasonal factors on the March reading was positive. On an unadjusted basis, month-to-month March 2015 construction inflation was unchanged at 0.00%. On an unadjusted basis, year-to-year construction inflation was 1.91% in March 2015, versus 2.00% in February 2015.

[Further background material on March nominal retail sales, industrial production and the PPI is found in the* Reporting Detail *section.]

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. The *Hyperinflation Outlook Summary* has not been revised from prior *Commentary No. 711*, other than for updated internal links or references.

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 *Commentary No. 711*). 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 reimposed 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, 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. The easings to date, however, appear to have been largely a prop to the increasingly unstable equity markets.

Again, 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. That process appears to have begun to reverse.

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 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. 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 *Commentary No. 711*). Sharply-negative economic reporting shocks, versus softening consensus forecasts, still 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 did not alter 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, while many in Washington look to continue increasing 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*). 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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REPORTING DETAIL

RETAIL SALES (March 2015)

Nominal Retail-Sales Bounced Back Some in March, but Quarterly Contraction and Weak Annual Growth Were Worst Since the Collapse. Following the industry 's weakest Holiday Season since the economic collapse from 2007 into 2009, and in the context of a January monthly plunge of 0.8% (-0.8%), and a revised headline February 2015 drop of 0.5% (-0.5%) [previously down by 0.6% (-0.6%)], nominal retail sales (before inflation adjustment) bounced back by 0.9% in March 2015. That placed nominal first-quarter 2015 sales in an annualized quarterly contraction of 5.0%, the worst quarterly showing since the depths of the recent economic failure. It also locked-in a quarterly contraction in real terms (after inflation adjustment) for the quarter, as will be reported with the March CPI-U on Friday, April 17th.

With first-quarter 2015 contractions likely for most economic series, nominal retail sales (and effectively real retail sales) and industrial production now have their quarterly downturns in place. As discussed also in the industrial production section, the last time that both quarterly nominal retail sales and industrial production contracted together was in first-quarter 2009, at the depths of the recent economic collapse. The last time that both quarterly real retail sales and industrial production contracted together was in second-quarter 2009, at the formal trough of the recent economic collapse.

Separately, despite the headline nominal monthly gain, year-to-year growth in nominal sales slowed to 1.4% in March, down from a revised 1.9% (previously 1.7%) in February 2015, again, the worst showing, with annual growth slowing, since the economic collapse, and a solid signal of an unfolding recession.

Late-market expectations had been for a monthly gain of 1.1% [Bloomberg], so the headline detail was on the downside of consensus.

Discussed in the *Seasonal-Factor Distortions* section, headline growth was exaggerated in March by 0.4%, tied to the misuse of concurrent seasonal-factor adjustments. Since December 2014, historical-adjustment revisions have been used each month to mute the headline rates of decline, or to boost the headline rates of gain. That said, the purported aggregate gain in headline March 2015 retail activity was broadly based, dominated by a monthly upturn in automobile sales, with negative activity for grocery stores, gas stations, nonstore retailers and electronics and appliance stores.

Structural Liquidity Issues Constrain Consumer Economic Activity. Discussed in detail in prior *Commentary No. 711*, the underlying issue with current retail sales activity remains intense, structural-liquidity woes besetting the consumer. That circumstance—in the last seven-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity.

Without real growth in income, and without the ability and/or willingness to offset declining purchasing power with debt expansion, the consumer lacks the ability to fuel traditional, consumption-based growth or recovery in U.S. economic activity, including retail sales and the still-dominant personal-consumption account of the GDP. 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.

Nominal (Not-Adjusted-for-Inflation) Retail Sales—March 2015. In nominal terms—before adjustment for consumer inflation—the April 14th report on March 2015 retail sales—issued by the Census Bureau—showed a statistically-significant, seasonally-adjusted, headline monthly gain of 0.86% +/- 0.58% (this and all other confidence intervals are expressed at the 95% level). Such followed a revised, statistically-significant monthly decline of 0.46% (-0.46%) +/- 0.35% [previously a decline of 0.58% (-0.58%)] in February 2015. Net of prior-period revisions, the monthly gain in March was 1.00%.

The headline monthly change for January 2015 revised to a decline of 0.80% (-0.80%) [previously down by 0.81% (-0.81%), initially down by 0.79% (-0.79%)].

Year-to-Year Annual Change. Year-to-year sales growth in March 2015 slowed to a statistically-significant 1.37% +/- 0.53%, versus a revised gain of 1.89% [previously up by 1.69%] in February, and a revised 3.62% [previously up by 3.61%, initially by 3.33%] in January 2015. The revisions to annual change here were due primarily to the continuous monthly shifting of seasonal-adjustment factors as misused in the regular Census Bureau reporting of the series (see the *Seasonal-Factor Distortions* section).

Annualized First-Quarter Contraction. The pace of annualized nominal retail sales change in first-quarter 2015 was a contraction of 4.99% (-4.99%), the worst quarterly showing since the economic collapse. Based solely on January and February reporting, the quarterly contraction had been at a pace of 6.06% (-6.06%), versus a downside pace of 4.81% (-4.81%), based solely on the initial January reporting.

Fourth-quarter 2014 versus the third-quarter retail sales rose at an annualized nominal pace of 1.85%, with third-quarter versus second-quarter growth at a 4.27% annualized pace.

March Core Retail Sales—Rising Gasoline Prices. Despite an environment of generally rising food prices—though not so reflected in the March PPI—and with an unadjusted 10.65% monthly gain in gasoline prices [Department of Energy], seasonally-adjusted monthly grocery-store sales were down by 0.57% (-0.57%) in March 2015, with gasoline-station sales falling by 0.58% (-0.58%) for the month.

Under normal conditions, the bulk of non-seasonal variability in food and gasoline sales is in pricing, instead of demand. "Core" retail sales—consistent with the Federal Reserve's preference for ignoring food and energy prices when "core" inflation is lower than full inflation—are estimated using two approaches:

Version I: March 2015 versus February 2015 seasonally-adjusted retail sales series—net of total grocery store and gasoline station sales—reflected a monthly increase of 1.21%, versus the official headline gain of 0.86%.

Version II: March 2015 versus February 2015 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—reflected a monthly increase of 0.97%, versus the official headline increase of 0.86%.

Real (Inflation-Adjusted) Retail Sales—March 2015. The headline 0.86% gain in March 2015 retail sales was before accounting for inflation. Real retail sales change in March will be published along with the headline estimate of consumer inflation for the March 2015, in *Commentary No. 713* of Friday, April 17th. As discussed in the *Week Ahead* section, headline March CPI-U likely will be positive, but not enough to offset fully the headline nominal gain in March retail sales.

Nonetheless, a quarter-to-quarter contraction in first-quarter 2015 real retail sales effectively is locked-in. Headline month-to-month March CPI-U would have to decline by more than of 1.3% (-1.3%) in order to push the real quarterly sales number into a neutral growth range. A headline CPI-U gain of 0.2% [Bloomberg] is expected and is not unreasonable.

Annual real growth in March 2015 retail sales should reconfirm the ongoing, historical warning signal of imminent recession.

Retail-Sales Benchmark Revision on April 30th. The Census Bureau has scheduled its annual retail-sales benchmark revision for April 30, 2015, one day following the release of the initial estimate of first-quarter 2015 GDP. The retail sales revisions likely will play catch up on the downside, where consideration of some negative-revision detail was excluded from last year's benchmarking, due to lingering impact from the shutdown of the federal government in October 2013. Related impact on GDP reporting should be seen in the annual GDP benchmark revisions of July 30th.

Seasonal-Factor Distortions and Other Reporting Instabilities. The usual seasonal-factor distortions were at play, again, in March 2015 reporting, where the headline data reflected concurrent seasonal adjustments. Given Census Bureau reporting procedures, the headline detail is not comparable with most earlier reporting. Accordingly, current data can reflect growth shifts from earlier periods, without the specifics being published. The principles and reporting issues with the way the government reports economic series adjusted by concurrent seasonal factors were explored, in-depth, in *Commentary No. 695*. The adjustment issues here are the same as with the employment and unemployment series. The reporting fraud is not in the use of concurrent seasonal-factor adjustments *per se*, but rather in the Census Bureau's not publishing fully-consistent, historical data each month.

As has been the common pattern, the year-ago numbers for February 2014 and March 2014 were revised, along with the publication of the March 2015 data and revised detail on January 2015 and February 2015. The year-ago revisions simply were junk reporting, due solely to shifts in their seasonal adjustments that resulted from the unique calculations of the seasonal factors producing the headline March 2015 detail, not due to the availability of any new historical data back in early-2014. Where all other seasonally-adjusted historical numbers also were revised, though, those details were not published. Only the new details for February and March 2014 were provided for the earlier numbers.

Specifically—in a repeating pattern month-after-month—a 0.1% (-0.1%) downside revision to February 2014 and a 0.3% upside revision to March 2014 sales indicated meaningful shifts in current headline seasonal-adjustment factors. The shift should have been enough to boost headline March 2015 sales by 0.4%, enough to reduce the headline March 2015 monthly gain from 0.9% to 0.5%, which would have left the headline gain as "statistically-insignificant."

The same gimmick has been used each month since December reporting, with the effect—desired or otherwise—of minimizing the reporting of headline monthly contractions, or maximizing the headline gains. All this happens without the specifics as to where headline activity has been shifted month-to-month. Full detail is available internally to the Census Bureau, but the Bureau chooses not publish the detail.

Beyond inconsistencies in the published adjusted historical data, the stability of the seasonal-adjustment process (particularly the concurrent-seasonal-adjustment process) and sampling methods have been disrupted severely by the unprecedented depth and length of the current economic downturn in the post-World War II era, the period of modern economic reporting.

Again, retail sales reporting suffers the same inconsistency issues seen with other series, such as payroll employment, the unemployment rate, and durable goods orders. The highly variable and unstable seasonal factors here continued to cloud relative activity in the January 2015-to-March 2015, and in the February 2014-to-March 2014 periods, five months that are published on a non-comparable basis with all other historical data.

INDEX OF INDUSTRIAL PRODUCTION (March 2015)

Quarterly Industrial Production Declined for First Time Since Headline Trough of the Collapse. Reflecting plunging oil and gas production and declining manufacturing, first-quarter 2015 industrial production fell at an annualized pace of 1.0% (-1.0%) [down by 0.97% (-0.97%) at the second decimal point], the first-quarterly contraction in the series since second-quarter 2009, the formal trough of the recent economic collapse.

Described by the Federal Reserve in their press release: "For the first quarter of 2015 as a whole, industrial production declined at an annual rate of 1.0 percent, the first quarterly decrease since the second quarter of 2009. The decline last quarter resulted from a drop in oil and gas well drilling and servicing of more than 60 percent at an annual rate and from a decrease in manufacturing production of 1.2 percent."

Annualized quarterly positive production growth for fourth-quarter 2014 revised to 4.6% (previously 4.4%, initially 4.3%), versus an unrevised 4.1% annualized gain in third-quarter 2014. Earlier estimates of trending first-quarter 2015 activity were on track for an annualized contraction of 0.2% (-0.2%) as of February reporting, and on track for a 1.4% annualized quarterly expansion as of the initial January 2015 reporting.

Again, the last time quarterly industrial production and nominal retail sales both contracted in tandem was in first-quarter 2009, with accompanying real GDP falling then at an annualized pace of 5.43%. Discussed earlier, first-quarter 2015 contractions are likely for most economic series, with nominal retail sales (and effectively real retail sales) and industrial production now with their quarterly downturns in place. The last time that both quarterly real (as opposed to nominal) retail sales and industrial production contracted together was in second-quarter 2009, at the formal trough of the recent economic collapse.

Industrial Production—March 2015. The Federal Reserve Board released its first estimate of seasonally-adjusted, March 2015 industrial production this morning (April 15th). Headline monthly production declined by 0.64% (-0.64%) in March, following a revised 0.10% [previously 0.07%] gain in February, and a revised decline of 0.41% (-0.41%) [previously down by 0.32% (-0.32%), initially a 0.15% gain] in January. Net of prior-period revisions, March 2015 production contracted month-to-month by 0.55% (-0.55%). The headline March contraction was weaker than consensus expectations for a monthly decline of 0.3% (-0.3%) [Bloomberg].

By major industry group, the headline March 2015 monthly decline of 0.6% (-0.6%) [February 2015 gain of 0.1%] in aggregate production was composed of a manufacturing gain of 0.1% in March [February decline of 0.2% (-0.2%)]; a March decline of 0.7% (-0.7%) [February decline of 1.6% (-1.6%)] in mining (oil and gas production); and a March decline of 5.9% (-5.9%) [offsetting a revised February gain of 5.7%] in unseasonable-weather affected utilities.

Year-to-year growth in March 2015 production was 2.05%, versus a revised 3.56% [previously 3.47%] in February, and a revised annual gain of 4.42% [previously 4.36%, initially 4.81%] in January 2015.

The Fish Really Are Beginning to Smell—Massive Benchmark Revisions Should Be Set and Should Show Much-Weaker Production and GDP, Unless Delayed. With the language in today's (April 15th) industrial production press release still doing nothing to clarify the date of the 2015 benchmark revision to industrial production, something unusual may be afoot. The revisions should be heavily negative to headline production activity of recent years. If a delay ends up pushing the production revisions until after the GDP revisions of July 30th, the overall revision process for major economic data indeed will smell about as sweet as rotting fish carcasses, as suggested last month.

Discussed in the last several production *Commentaries*, the Federal Reserve is due to publish a massive annual benchmark revision to the industrial production series, correcting historical detail for more complete information as it has become available, along with redefinitions back to 1972. The March 2014 benchmark revision, however, largely was incomplete, lacking detail from the regular Census of Manufactures (2012), which apparently had been delayed in its release by the government shutdown of

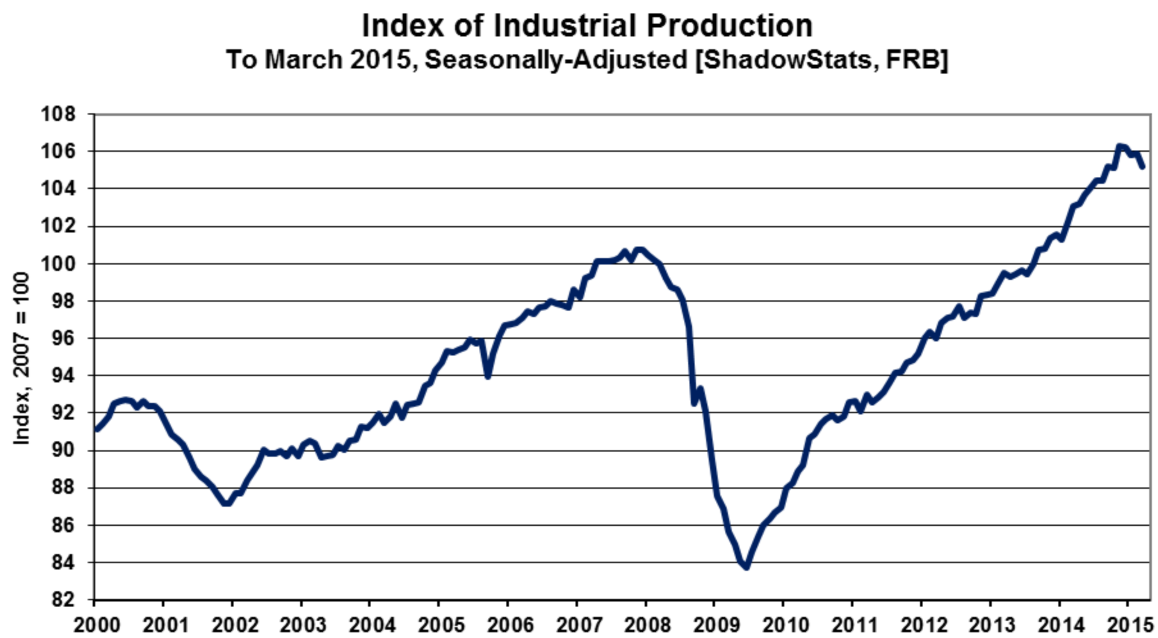
October 2013. As a result, what should have been massive downside revisions to 2012 and 2013 industrial production activity (and broader GDP activity) never took place (see *Commentary No. 613*).

That should be corrected this year, but the Federal Reserve's indication now is "mid-2015," instead of its prior indication of "second quarter of 2015," for the revisions. Unusual at this point in time for the Fed, the timing for this year's benchmarking still is not specific. Along with the recent press releases of industrial production (including today's), the Federal Reserve had indicated that 2015 annual benchmarking would include "new annual benchmark data for 2012 [previously missing] and 2013 manufacturing ..."

Production Graphs. The following two sets of graphs reflect headline industrial production activity to date. The first graph in the first set shows the monthly level of the production index, with a topping-out and renewed downturn—quarterly contraction—seen in the last several months of reporting. The second graph shows the year-to-year percentage change in the same series for recent historical detail, beginning January 2000. Annual growth now has slowed sharply, to levels that normally precede or accompany the onset of headline recessions. The second set of graphs shows the same data in historical context since World War II.

Shown more clearly in the first set of graphs, the pattern of year-to-year activity dipped anew in late-2013 to levels usually seen only at the onset of recessions, bounced higher into mid-2014, fluctuated thereafter and has headed sharply lower again in recent months. Annual growth remains well off the recent relative peak for the series, which was 8.49% in June 2010, going against the official June 2009 trough of the economic collapse. Indeed, as shown in the second set of graphs, the year-to-year contraction of 15.06% in June 2009—the end of second-quarter 2009—was the steepest annual decline in production since the shutdown of war-time production following World War II.

Although official production levels have moved higher since the June 2009 trough, corrected for the understatement of inflation used in deflating portions of the industrial production index (see the *Opening Comments* section) the series has shown more of a pattern of stagnation with a slow upside trend, since 2009, with irregular quarterly contractions since. The slow uptrend continued into a topping out pattern in late-2014 and now is in quarterly contraction for first-quarter 2015. The "corrected" series remains well shy of a formal recovery.


Index of Industrial Production
To March 2015, Seasonally-Adjusted [ShadowStats, FRB]
Index, 2007 = 100
108
106
104
102
100
98
96
94
92
90
88
86
84
82
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015


Industrial Production Yr-to-Yr % Change
To March 2015, Seasonally-Adjusted [ShadowStats, FRB]
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
-14%
-16%
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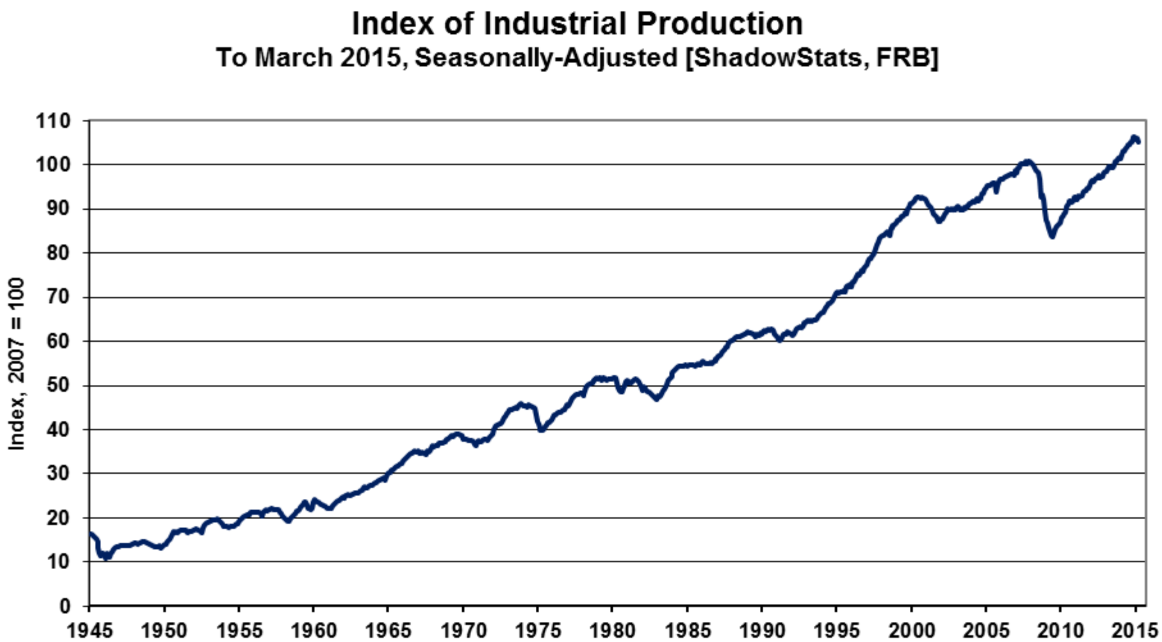
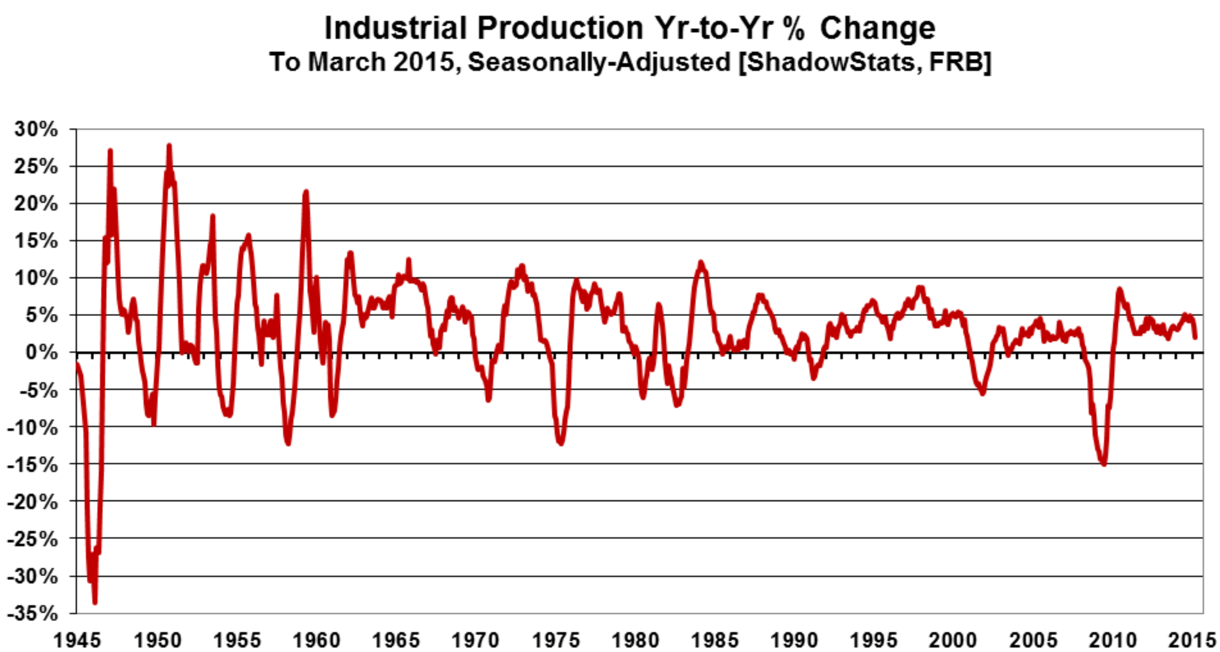
2012
2013
2014
2015


Index of Industrial Production
To March 2015, Seasonally-Adjusted [ShadowStats, FRB]
Index, 2007 = 100
110
100
90
80
70
60
50
40
30
20
10
0
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015


Industrial Production Yr-to-Yr % Change
To March 2015, Seasonally-Adjusted [ShadowStats, FRB]
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
-20%
-25%
-30%
-35%
1945
1950
1955
1960
1965
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015

PRODUCER PRICE INDEX—PPI (March 2015)

Otherwise-Squirrelly PPI Numbers Have a Somewhat-Normal Month, with Relatively-Calm Energy Impact. From a practical standpoint, the aggregate Final Demand Producer Price Index has little relationship to real world activity. The problem has been that the services sector, which is the dominant component of the index, reflects profit margins, not prices.

Seen in recent months, major movements in oil-related prices on the goods side had a something of self-offsetting effect on the services side. Rapidly falling prices, while deflationary, also had an inflationary counterpart in widening trade margins. Rapidly rising prices had the reverse effect, with rising or falling oil costs moving faster that than price hikes or declines to the next level of distribution or sales. Narrower margins are deflationary on the services side, even though the nature of the narrowing is suggestive of higher prices ahead.

With component price movements well shy of recent extremes, the headline, monthly March 2015 PPI rose across all three Final Demand categories: Goods, Services and Construction.

Inflation that Is More Theoretical than Real World? *[The background text is as published in the prior PPI* Commentary.*]* Effective with January 2014 reporting, a new Producer Price Index (PPI) replaced what had been the traditional headline monthly measure of wholesale inflation in Finished Goods (see *Commentary No. 591*). In the new headline monthly measure of wholesale Final Demand, Final Demand Goods basically is the old Finished Goods series, albeit expanded.

The new and otherwise dominant Final Demand Services sector largely reflects problematic and questionable surveying of intermediate or quasi-wholesale profit margins in the services area. To the extent that profit margins shrink in the services sector, one could argue that the resulting lowered estimation of inflation actually is a precursor to higher inflation, as firms subsequently would move to raise prices, in an effort to regain more-normal margins. In like manner, in the recent circumstance of "increased" margins—most likely due to the lower cost of petroleum-related products not being passed along immediately to customers—competitive pressures to lower margins would tend to be reflected eventually in reduced retail prices (CPI). The oil-price versus margin gimmick works both way. In times of rapidly rising oil prices, it mutes the increase in Final Demand inflation, in times of rapidly decline oil prices; it tends to mute the decline in Final Demand inflation.

The new PPI series remains an interesting concept, but it appears limited as to its aggregate predictive ability versus general consumer inflation. Further, there is not enough history available on the new series (just six years of post-2008-panic data) to establish any meaningful relationship to general inflation or other economic or financial series.

March 2015 Headline PPI Detail. The Bureau of Labor Statistics (BLS) reported April 14th, that seasonally-adjusted, month-to-month, headline Producer Price Index (PPI) Final Demand inflation for March 2015 rose by 0.18%, versus a decline of 0.45% (-0.45%) in February.

The impact of seasonal adjustments on the headline monthly March aggregate PPI change was negative, with the unadjusted month-to-month March inflation rising by 0.46%, versus a drop of 0.27% (-0.27%) in February. Also on a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year headline PPI inflation dropped by 0.81% (-0.81%) in March 2015, versus a decline of 0.64% (-0.64%) in February 2015.

In terms of the three major subcategories for March 2015 Final Demand PPI, headline monthly Final Demand Goods inflation rose by 0.28%, Final Demand Services inflation rose by 0.09%, and Final Demand Construction inflation rose by 0.09%.

Final Demand Goods (Weighted at 34.69%). Running somewhat in parallel with the old Finished Goods PPI series, headline monthly Final Demand Goods inflation rose by 0.28% in March 2015, having contracted by 0.37% (-0.37%) in February. There was an aggregate negative impact on the headline March 2015 reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, March final demand goods inflation rose by 0.55% for the month.

Unadjusted, year-to-year goods inflation was down by 4.37% (-4.37%) in March 2015, versus an annual decline of 4.23% (-4.23%) in February 2015.

Headline seasonally-adjusted monthly changes by major components of March 2015 Final Demand Goods:

- "Foods" inflation dropped by 0.75% (-0.75%) in March 2015, versus a decline of 1.57% (-1.57%) in February, with March's headline monthly contraction made more negative by seasonal adjustments. Unadjusted, March food inflation fell by 0.25% (-0.25%) for the month. Unadjusted and year-to-year, March 2015 foods inflation fell by 1.42% (-1.42%), having gained 0.42% in February 2015.
- "Energy" inflation rose by 1.52% in March 2015, having been unchanged at 0.00% month-to-month in February 2015, with the March reading hit heavily by negative seasonal adjustments. Unadjusted, March energy inflation rose by 3.41% month-to-month. Unadjusted and year-to-year, March 2015 energy inflation was down by 21.74% (-21.74%), versus a February 2015 annual contraction of 22.37% (-22.37%).
- "Less foods and energy," or "core" goods inflation rose by 0.18% in March 2015, having contracted by 0.09% (-0.09%) in February. Seasonal adjustments were a positive for monthly core inflation, with an unchanged 0.00% level for the unadjusted March number. Unadjusted and year-to-year, March 2015 core inflation rose by 0.55%, versus an annual gain of 0.37% in February 2015.

Final Demand Services (Weighted at 63.29% of the Aggregate). Headline monthly Final Demand Services inflation rose by 0.09% in March 2015, versus a decline of 0.45% (-0.45%) in February. The overall impact on the March month-to-month services inflation reading from underlying seasonal-factor adjustments was negative, with an unadjusted gain of 0.37% in the current month.

The BLS reported that 60% of the monthly increase in March services inflation was due to a 4.1% increase in prices for portfolio management. Such likely reflects primarily the general poor quality, instabilities and nonsense involved in the surveying for the broad series.

Year-to-year unadjusted services inflation was 1.01% in March 2015, versus 1.20% in February 2015.

The headline monthly changes by major component for March 2015 Final Demand Services inflation:

- "Services less trade, transportation and warehousing" inflation rose by 0.28% in March 2015, the same as the 0.28% gain in February. Seasonal-adjustment impact on the adjusted March detail was negative, where the unadjusted monthly gain in March 2015 was 0.37%. Unadjusted and year-to-year, March 2015 "other" services inflation gained 1.12%, versus a 1.03% annual gain in February 2015.

- "Transportation and warehousing" inflation declined month-to-month by 0.17% (-0.17%) in March 2015, following a drop of 1.45% (-1.45%) in February 2015. Seasonal adjustments had a negative impact, with an unadjusted monthly gain of 0.61% in March. Unadjusted and year-to-year, March 2015 transportation inflation fell by 1.36% (-1.36%), versus an annual contraction of 0.60% (-0.60%) in February 2015.
- "Trade" inflation dropped by 0.18% (-0.18%) month-to-month in March 2015, having been down in February by 1.51% (-1.51%). Seasonal adjustments had a negative impact here, where the unadjusted inflation change in March was for a month-to-month increase of 0.18%. Unadjusted and year-to-year, March 2015 trade inflation rose by 1.27%, having gained 2.21% in February 2015.

Final Demand Construction (Weighted at 2.02% of the Aggregate). Although a fully self-contained subsection of the Final Demand PPI, Final Demand Construction inflation receives no formal headline coverage. Nonetheless, headline numbers are published, and month-to-month construction inflation rose by 0.09% in March 2015, the same 0.09% pace as in February. The impact of seasonal factors on the March reading was positive. On an unadjusted basis, month-to-month March 2015 construction inflation was unchanged at 0.00%.

On an unadjusted basis, year-to-year construction inflation was 1.91% in March 2015, versus 2.00% in February 2015.

Discussed in *Commentary No. 709*, ShadowStats uses the "final demand construction" index for deflating headline activity in the monthly construction-spending series.

PPI-Inflation Impact on Pending Reporting of Durable Goods. As to the upcoming reporting of March 2015 new orders for durable goods, unadjusted monthly inflation for new orders for manufactured durable goods in March 2015 was 0.06%, versus "unchanged" at 0.00% in February. The February inflation reading had been the third straight month of "unchanged." Annual inflation was 0.72% in March 2015, versus 0.60% in February 2015. March 2015 durable goods orders will be released on April 24th and covered in the *Commentary* of the same date.

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 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 *Commentary No. 711*).

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:

Residential Construction—Housing Starts (March 2015). The Census Bureau will release March 2015 residential construction detail, including housing starts tomorrow, 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, market expectations are for a sharp rebound in monthly activity of 15.9% [Bloomberg], reversing a large hit to February activity, which was savaged in some regions by horrendous weather conditions. Even 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 *Commentary No. 711*, 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 late expectations of a headline monthly gain of 0.2% [Bloomberg], 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 the consensus expectations 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.