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

COMMENTARY NUMBER 718
April Nominal Retail Sales, Consumer Liquidity

May 13, 2015

In the Context of Downside Benchmark Revisions,
Headline Nominal April Retail Sales Were Unchanged for the Month

Net of Ongoing Revision Shenanigans in Monthly Seasonal-Adjustments,
Nominal April Retail Sales Actually Fell by About 0.4% (-0.4%)

No Rebound Suggested in Second-Quarter Real Retail Sales

Slowing Annual Sales Growth Moved Deeper into Recession Territory

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PLEASE NOTE: The next regular Commentary, *scheduled for Friday, May 15th, will cover April industrial production, the producer price index (PPI) and the annual benchmark revision to new orders for durable goods.*

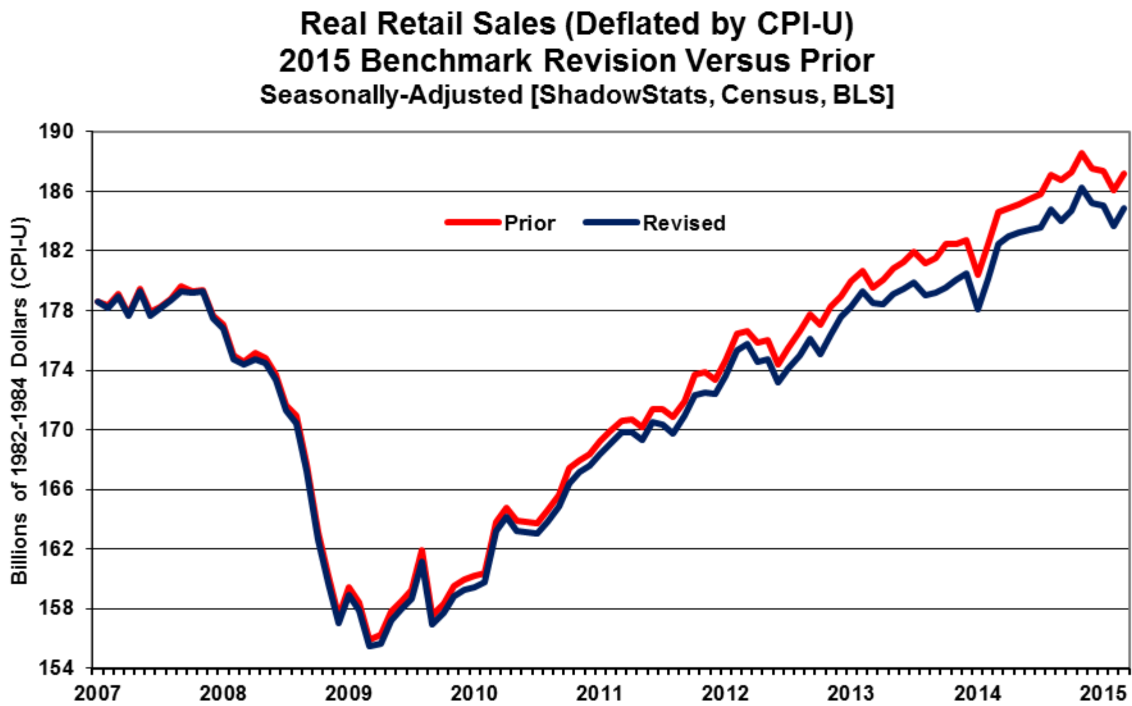
Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

"New" Recession Remains in Play. Following a disastrous 2014 Holiday Season—the weakest since the economic collapse from 2007 into 2009—and in the context of nominal (not-adjusted-for inflation) and real (inflation-adjusted using the CPI-U) quarterly contractions in first-quarter 2015, retail sales were

flat in headline monthly reporting for April 2015, in nominal terms. That initial, headline detail also was suggestive of no real growth in second-quarter 2015 retail sales (see *Real Retail Sales* section), a circumstance that remained well within the scope of an unfolding "new" recession.

The "unchanged" nominal headline activity in April was in the context of today's (March 13th) post-benchmark revisions and the annual benchmark revision to the retail sales series on April 30th (see *Commentary No. 716* for full detail). In turn, those revisions all were subsequent to the last regular, headline monthly reporting of retail sales on April 14th, for March 2015. The benchmark revisions back to January 2000, showed that the economic collapse from 2007 (or before) into 2009, was a little deeper than previously estimated, and that the purported recovery was not as strong as advertised. The retail-sales benchmarking detail had downside implications for the GDP benchmark revisions scheduled for release on July 30th.



Late-market expectations for nominal retail sales had been for an April 2015 headline monthly gain of 0.2% [Bloomberg], so the headline detail was on the downside of consensus. The headline "unchanged" April number was a decline of 0.001% (-0.001%) at the third decimal point. Net of the revisions since the benchmark-revised March 2015 number of April 30th, the headline April number was up by 0.21%, in line with the consensus, while versus the initial headline March 2015 number (pre-benchmark) released on April 14th, the headline April number was down by 1.04% (-1.04%).

That said, the aggregate "unchanged" headline level in April 2015 retail sales activity reflected declining automobile sales and retail-store trade, with a positive, balancing offset seen at food services and drinking places, and at nonstore retailers.

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The headline annual pace of nominal decline in April 2015 retail sales slowed to 0.88% year-to-year, down from 1.73% in March 2015 (post-benchmark). In terms of slowing/falling nominal growth rates, the headline April number was the worst reading since the depths of the economic collapse, and it remained a continued, solid signal of deepening recession.

Unconscionable Seasonal Adjustment Distortions. Detailed in the *Seasonal-Factor Distortions* section of the *Reporting Detail*, headline sales growth was exaggerated in April 2015, repeating—for a fifth consecutive headline month—the misuse of concurrent seasonal-factor adjustments. Since December 2014, revisions to historical, concurrent seasonal-factors have been used each month (and frequently before December) with the effect of boosting the relative rate of current headline month-to-month retail-sales change versus the prior month's activity. The latest prior-period revisions shifted enough relative activity into April 2015 to generate headline "unchanged" activity, instead of what otherwise would have been roughly a 0.4% (-0.4%) headline contraction, using old-fashioned reporting with fixed-seasonal adjustments in a given year.

Recession Still Appears to Be in Place. With full reporting now in place for the first-quarter trade deficit, the initial first-quarter 2015 real GDP headline growth of 0.2% is a virtual certainty to revise to a quarterly contraction. Today's headline retail sales reporting was suggestive of no growth in second-quarter 2015 real retail sales, but that will be subject to likely downside reporting and revisions in the next two months, well before the July 30th initial estimate of second-quarter GDP growth.

Indications from headline April industrial production this Friday, May 15th, should suggest a second-quarter contraction in production, and that could do much to move the general economic consensus towards the outlook for a second-quarter GDP contraction and a headline "new" recession.

Today's Missive (May 13th). The balance of today's *Commentary* concentrates on the headline-reporting detail of April 2015 nominal retail sales, and on updated consumer conditions.

The *Hyperinflation Outlook Summary* is not revised from *No. 711*. Separately, the *Week Ahead* section previews the annual benchmark revision to new orders for durable goods, along with updated comments on April industrial production and the PPI in the balance of this week.

Nominal Retail Sales—April 2015—No Real Growth Signaled for Second-Quarter Retail Sales. Discussed in the opening paragraphs, the headline "unchanged" monthly reading for April nominal retail sales also provided a tentative, initial "unchanged" signal for real quarterly growth in the series, assuming that the early consensus for a headline, minimally-positive CPI-U monthly reading for April 2015 comes to fruition (see *Real Retail Sales*). Annual growth in retail sales, also adjusted for inflation, almost certainly continued to deteriorate, signaling a deepening economic downturn.

Nominal (Not-Adjusted-for-Inflation) Retail Sales—April 2015—Headline Detail. In the context of the annual benchmarking and subsequent revisions, the headline April 2015 retail sales showed statistically-insignificant, seasonally-adjusted, "unchanged" nominal monthly activity of 0.00%. Such followed a

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revised, statistically-significant monthly gain of 1.12% in March. Headline February 2015 retail sales revised to a monthly decline of 0.53% (-0.53%).

Net of prior-period revisions, the monthly change in April was a gain of 0.21% versus the benchmark, a decline of 1.04% (-1.04%) versus the original March 2015 reporting.

Year-to-Year Annual Change. Year-to-year sales growth in April 2015 slowed to a statistically-insignificant 0.88%, versus a revised gain of 1.73% in March 2015, and a revised 1.88% increase in February 2015. The revisions to annual change here were due primarily to the continual, non-economic monthly shifting of seasonal-adjustment factors, as misused in the regular Census Bureau reporting of the series (again, see the *Seasonal-Factor Distortions* section in the *Reporting Detail*).

Annualized First-Quarter Contraction, Developing Second-Quarter Change. The pace of annualized nominal retail sales change in first-quarter 2015 was a revised contraction of 4.57% (-4.57%), still the worst quarterly showing since the economic collapse. The initial, nominal annualized quarterly growth for second-quarter 2015 retail sales would be 2.30%, based solely on the initial headline reporting for April 2015.

Net of inflation, in real terms, the retail sales change in first-quarter 2015 was a revised quarterly contraction of 1.56% (-1.56%). The CPI-U reporting for April 2015 is due on May 22nd. Early expectations are for a minimal headline gain in the CPI inflation, which would suggest a trend towards an initial "unchanged" real retail sales annualized growth number in second-quarter 2015 (see the *Real Retail Sales* section).

Real (Inflation-Adjusted) Retail Sales—April 2015. The nominal headline "unchanged" April 2015 retail sales was before accounting for inflation. Early expectations appear to be for a small positive reading in the headline April CPI-U (due for release on May 22nd), enough to turn headline nominal "unchanged" April retail sales into a headline real contraction, and enough to generate an initial "unchanged" estimate of real quarterly growth for second-quarter retail sales. Annual real growth in April 2015 retail sales also should slow further, reconfirming an intensifying and ongoing, historical warning signal of imminent recession. Details on the monthly, quarterly and annual real growth rates will be discussed in detail in the related in *Commentary No. 721* of Friday, May 22nd

Structural Consumer Liquidity Problems—Primary Factor Driving "Renewed" Economic Downturn. Updating *Commentary No. 711* of April 10th, and as otherwise discussed regularly in these *Commentaries* (see detail in *No. 692 Special Commentary: 2015 - A World Out of Balance*), retail sales and the dominant personal-consumption component of U.S. economic activity have been constrained by structural liquidity issues with the consumer, since before the Panic of 2008.

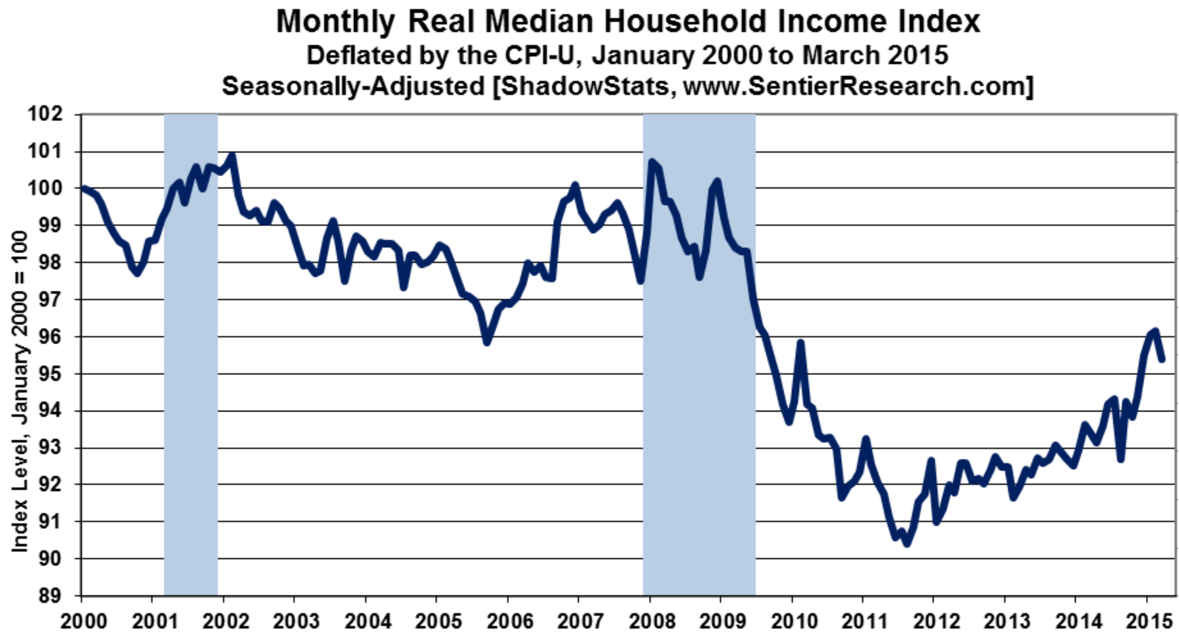
Without real (inflation-adjusted) growth in household income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable economic growth. Impaired consumer liquidity and its direct restraints on consumption have dominated 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. Together, those sectors account for more than 70% of aggregate U.S. GDP activity.

The 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.

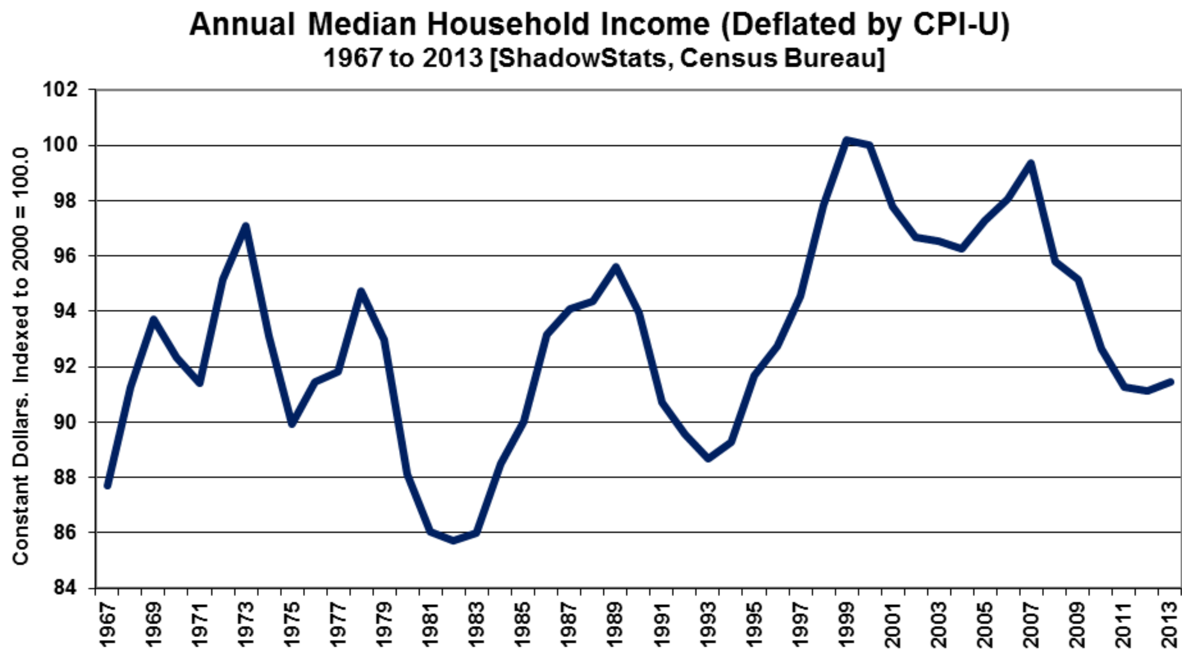
Consider the following graphs. The first plots monthly real median household income through March 2015, as reported by www.SentierResearch.com. The income series has continued in low-level stagnation, remaining near its cycle low, despite some recent up-trending in month-to-month volatility. The recent 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.

A downturn resumed in March. With the headline CPI-U rising by another 0.2% in March 2015, the headline decline in real median household income (deflated by the CPI-U) was a statistically-significant monthly drop of 0.8% (-0.8%). Before inflation adjustment, the nominal reading for median household income still declined by 0.6% (-0.6%) month-to-month for March.



Where 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 should 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 preceding second graph, 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*.

The next three graphs reflect the latest headline activity in consumer confidence and sentiment. The Conference Board's Consumer Confidence Index and the University of Michigan's Consumer Sentiment Index respectively notched lower and higher for the month of April 2015. Both series have pulled back in there three-month moving-average 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. An increasingly-negative toll from negative headline economic reporting should be seen in hits to both the confidence and sentiment readings of the next month or so.

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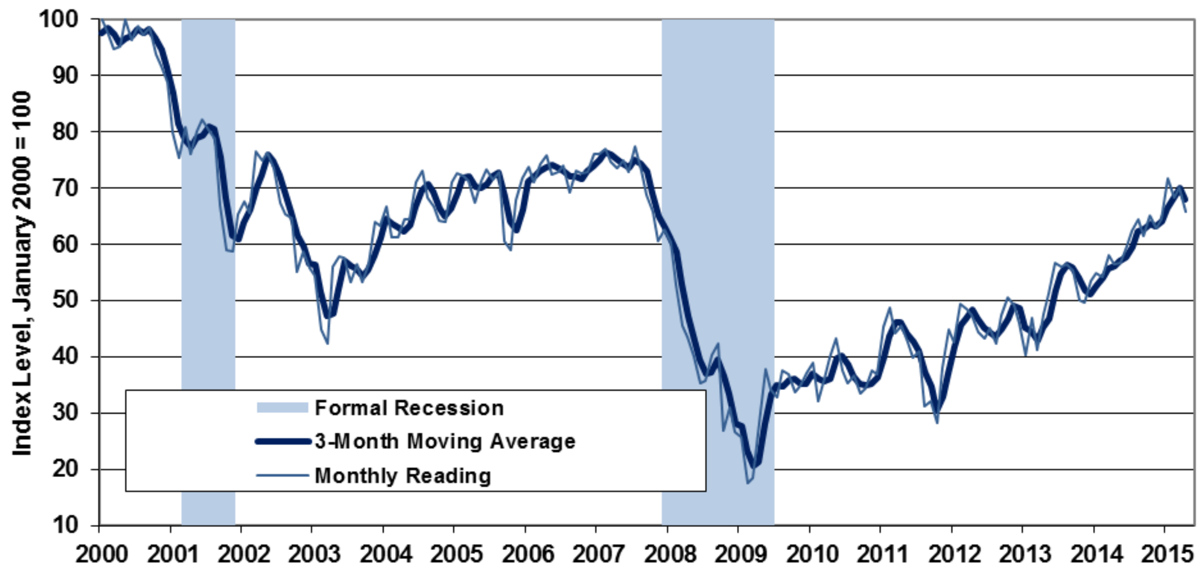
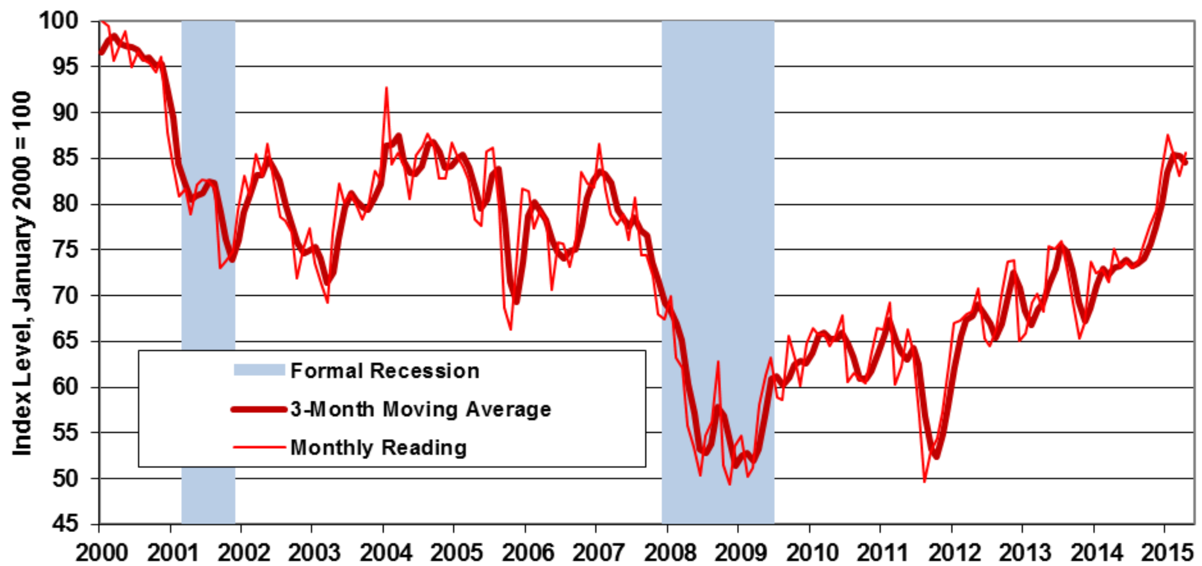
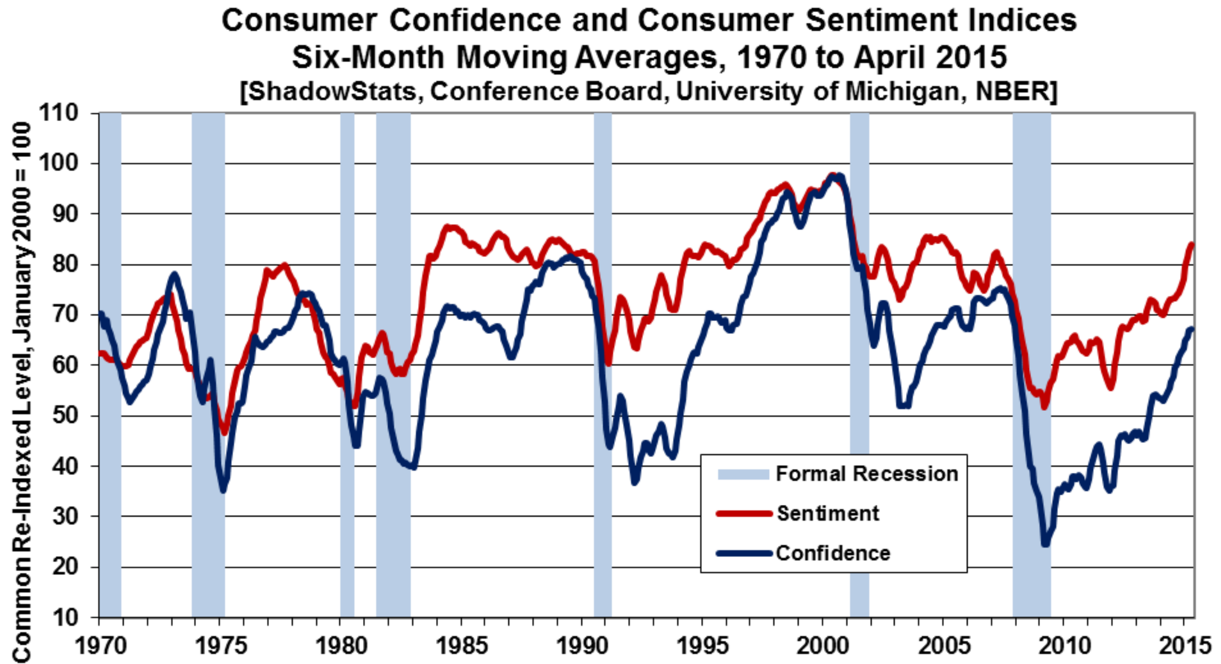
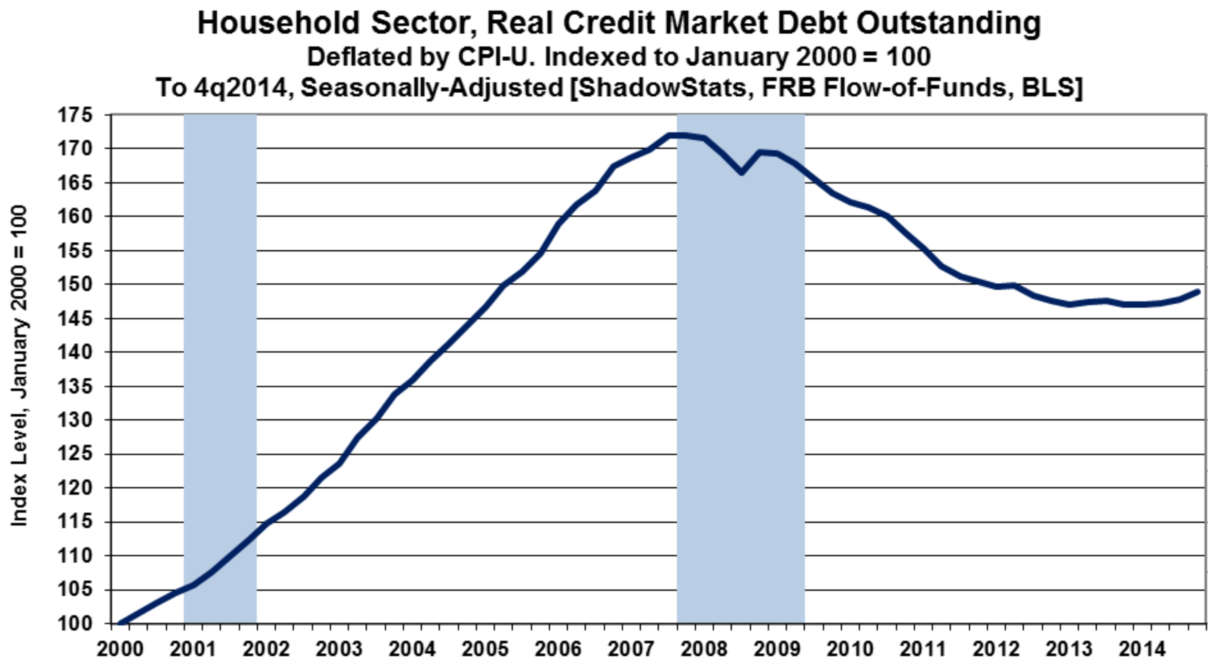




Smoothed for the irregular, short-term volatility, however, the two series still remain at levels seen typically in recessions. As suggested in the third graph (following), as plotted for the last 40 years, the latest readings of confidence and sentiment generally have not recovered levels that preceded 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 in 2014.





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 (above) 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

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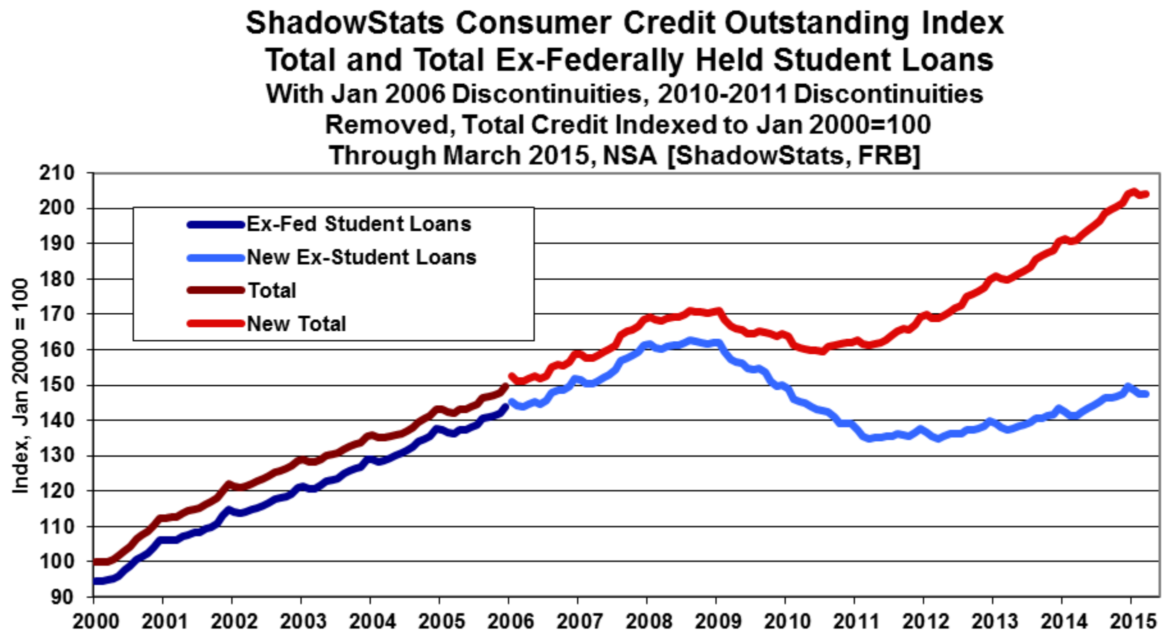
stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. Updated through fourth-quarter 2014, the graph reflects the most-recent detail available from the Federal Reserve's flow-of-funds data.

The second graph shows the regular plot of nominal consumer credit outstanding, updated through March 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.



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. There are no prospects for a recovery in the near term.

[The **Reporting Detail** *section includes further detail on the April retail sales.]*

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 *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 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.

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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.

REPORTING DETAIL

NOMINAL RETAIL SALES (April 2015)

No Real Growth Signaled for Second-Quarter Retail Sales. *[The following detail, through the* Unconscionable Seasonal Adjustments *section, largely is repeated from the opening paragraphs in the* Opening Comments.*]* Following a disastrous 2014 Holiday Season—the weakest since the economic collapse from 2007 into 2009—and in the context of nominal (not-adjusted-for inflation) and real (inflation-adjusted using the CPI-U) quarter-to-quarter contractions in first-quarter 2015, nominal headline April 2015 retail sales reporting was flat for the month. The new headline detail initially is suggestive of no real growth in second-quarter 2015 (see *Real Retail Sales* section).

The unchanged headline reporting in April 2015 nominal retail sales was in the context of today's post-benchmark revisions and the annual benchmark revisions to the retail sales series on April 30th (see the *Opening Comments* for a graphic and *Commentary No. 716* for full detail). In turn, those revisions all were subsequent to the last regular, headline monthly reporting of retail sales on April 14th for March 2015. The benchmark revisions back to January 2000, showed that the economic collapse from 2007 (or before) into 2009, was a little deeper than previously estimated, and that the purported recovery was not as strong as advertised.

Late-market expectations for nominal retail sales had been for an April headline monthly gain of 0.2% [Bloomberg], so the headline detail was on the downside of consensus. The headline "unchanged" April number was a decline of 0.001% (-0.001%) at the third decimal point. Net of the revision since the benchmark-revised March 2015 number of April 30th, the headline April number was up by 0.21%, in

line with the consensus, while versus the initial headline March 2015 number (pre-benchmark) released on April 14th, the headline April number was down by 1.04% (-1.04%).

That said, the aggregate "unchanged" level in headline April 2015 retail activity reflected declining automobile sales and retail-store trade, with a positive, balancing offset seen at food services and drinking places, and at nonstore retailers.

The headline annual pace of nominal decline in April 2015 retail sales slowed to 0.88% year-to-year, down from 1.73% in March 2015 (post-benchmark). In terms of slowing/falling nominal growth rates, the headline April number was the worst reading since the depths of the economic collapse, and it remained a continued, solid signal of an unfolding recession.

Unconscionable Seasonal Adjustment Distortions. Discussed in the *Seasonal-Factor Distortions* section, headline growth was exaggerated in April 2015, repeating for a fifth consecutive headline month the misuse of concurrent seasonal-factor adjustments. Since December 2014, concurrent seasonal-factor historical-adjustment revisions have been used each month, with the effect of boosting the relative rate of headline month-to-month change.

Structural Liquidity Issues Constrain Consumer Economic Activity. Updated in the *Opening Comments*, 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—April 2015. In nominal terms—before adjustment for consumer inflation—today's May 13th report on April 2015 retail sales—issued by the Census Bureau—showed statistically-insignificant, seasonally-adjusted, unchanged headline monthly activity of 0.00% +/- 0.58% (this and all other confidence intervals are expressed at the 95% level). Such followed a revised, statistically-significant monthly gain of 1.12% +/- 0.35% [previously a benchmarked gain of 0.89%, up by 0.86% pre-benchmark] in March 2015. Net of prior-period revisions, the monthly change in April was a gain of 0.21% versus the benchmark revisions, a decline of 1.04% (-1.04%) versus the original March 2015 reporting.

Headline February 2015 revised to a monthly decline of 0.53% (-0.53%) [previously a decline of 0.50% (-0.50%) versus the benchmark; down by 0.46% (-0.46%), initially a decline of 0.58% (-0.58%), pre-benchmark].

Year-to-Year Annual Change. Year-to-year sales growth in April 2015 slowed to a statistically-insignificant 0.88% +/- 1.53%, versus a revised gain of 1.73% [previously a gain of 1.32% in the benchmark; up by 1.37% pre-benchmark] in March 2015, and against a revised 1.88% increase [previously a gain of 1.90% in the benchmark; up by 1.89% versus the pre-benchmark, initially 1.69%] in

February 2015. The revisions to annual change here were due primarily to the continual, non-economic 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, Developing Second-Quarter Change. The pace of annualized nominal retail sales change in first-quarter 2015 was a revised contraction of 4.57% (-4.57%) [previously down by 4.80% (-4.80%) in the benchmark, down by 4.99% (-4.99%) pre-benchmark], still the worst quarterly showing since the economic collapse. The initial, nominal annualized quarterly growth for second-quarter 2015 retail sales would be 2.30%, based solely on the initial headline reporting for April 2015.

Net of inflation, in real terms, the retail sales change in first-quarter 2015 was a revised quarterly contraction of 1.56% (-1.56%) [previously down by 1.80% (-1.80%) per the benchmark, down by 1.99% (-1.99%) pre-benchmark]. The revision tied to the benchmarking would tend to have impact on the GDP benchmarking of July 30th. The post-benchmark retail sales revision should have minor positive impact on the May 29th first-revision to first-quarter 2015 GDP, but that would be well shy of the negative GDP revision looming from the revamped first-quarter trade detail.

The CPI-U reporting for April 2015 is due on May 22nd. Early expectations are for a minimal headline gain in the CPI inflation, which would suggest a trend towards an initial "unchanged" real retail sales annualized growth number in second-quarter 2015. Further discussion on the quarterly outlook will follow on May 22nd (see the *Real Retail Sales* section).

April Core Retail Sales—Rising Gasoline Prices. Despite an environment of generally rising food prices, and with an unadjusted 0.45% monthly gain in gasoline prices [Department of Energy], seasonally-adjusted monthly grocery-store sales were down by 0.30% (-0.30%) in April 2015, with gasoline-station sales falling by 0.70% (-0.70%) 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:

<u>Version I:</u> April 2015 versus March 2015 seasonally-adjusted retail sales series—net of total grocery store and gasoline station sales—reflected a monthly increase of 0.11%, versus the official headline aggregate "unchanged."

<u>Version II:</u> April 2015 versus March 2015 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—reflected a monthly increase of 0.09%, versus the official headline aggregate "unchanged."

Real (Inflation-Adjusted) Retail Sales—April 2015. The nominal headline "unchanged" April 2015 retail sales was before accounting for inflation. Real retail sales change in April will be published along with the headline estimate of consumer inflation for April 2015, in *Commentary No. 721* of Friday, May 22nd. Early expectations appear to be for a small positive reading in the headline April CPI-U, enough to turn headline nominal "unchanged" April retail sales into a headline real contraction.

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Annual real growth in April 2015 retail sales should slow further, reconfirming an intensifying and ongoing, historical warning signal of imminent recession.

Seasonal-Factor Distortions and Other Reporting Instabilities. The usual seasonal-factor distortions were at play, again, in April 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 in all the headline monthly reporting since December 2015 (and frequently before), the year-ago numbers for the headline April 2015 detail, March 2014 and April 2014 were revised, along with the publication of the April 2015 data and revised detail on February 2015 and March 2015. The year-ago revisions simply (in this case post-benchmarking) were junk reporting, due solely to shifts in their seasonal adjustments that resulted from the unique calculations of the seasonal factors producing the headline April 2015 detail. The revisions were not due to the availability of any new historical data back in early-2014 (anything there was put in place with the April 30th benchmark revision). Where all other seasonally-adjusted historical numbers also were revised, post-benchmark, however, those details were not published. Only the new details for March and April 2014 and for February and March 2015 were provided for the earlier numbers.

Specifically—in a repeating pattern month-after-month—a 0.2% (-0.2%) downside revision to March 2014 and a 0.2% upside revision to April 2014 sales indicated meaningful and parallel shifts in current headline seasonal-adjustment factors. The shift effectively boosted relative headline April 2015 sales by 0.4%, enough to have shown that the headline "unchanged" really was an outright headline contraction of 0.4% (-0.4%), which would have suggested a real quarterly contraction in play for the initial second-quarter 2015 real retail sales estimations, based on today's reporting.

The same reporting gimmick has been used in each month since December 2014 reporting (and, again, frequently before), 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 to 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 February 2015-to-April 2015, and in the March 2014-to-April 2014 periods, five months that are published on a non-comparable basis with all other historical data.

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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 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 (or revisions to) of first- and second-quarter 2015 should continue shifting to the downside, into increasingly negative territory (see *Opening Comments* and *Commentary No. 711*).

Headline CPI-U consumer inflation—recently driven lower by collapsing prices for gasoline and other oil-price related commodities—likely is close to its near-term, year-to-year low, having shown monthly declines in annual inflation of less than a full 0.1% (-0.1%) in the three months through March 2015. Significant upside inflation pressures should resume as oil prices rebound, a process that already may 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:

***[Updated Consensus]* Producer Price Index—PPI (April 2015).** The Bureau of Labor Statistics (BLS) will release the April 2015 PPI tomorrow, Thursday, May 14th, but ShadowStats will cover the detail in *Commentary No. 719* of Friday, May 15th. Late-consensus expectations have strengthened to suggest a headline monthly gain of 0.2% [Bloomberg], the same headline inflation rate as estimated for March 2015. While such is not unreasonable, the reporting could go either way around "unchanged."

While the collapse in oil and gasoline prices bottomed out in February, pricing pressures were mixed in March (oil down, gasoline up), and generally were to the upside in April. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices gained 6.5% and 13.9% in April, but with an accompanying increase of just 0.4% the unadjusted monthly-average, retail-gasoline prices (Department of Energy). PPI seasonal adjustments for energy costs in April are negative. That, combined with the inverse inflation reaction of shifting oil prices in the services sector, where rising oil prices often are reflected in falling margins (services deflation), suggests little change in the energy-related, headline April PPI.

With some monthly inflation added in food, "core" goods (everything but food and energy), a small gain in the headline PPI is a possibility, but, again, so is a small decline.

New Orders for Durable Goods (2015 Benchmark Revision). Tomorrow, Thursday May 14th, the Census Bureau will release its annual benchmark revisions to the new orders for durable goods series. ShadowStats *Commentary No. 719* of Friday, May 15th will cover the detail.

Where these revisions will be playing catch-up from publication delays that resulted from the 2013 shutdown of the federal government, the updated data likely will show a deeper downturn and more limited "recovery" than previously reflected for the formal 2007 recession. Accordingly, in conjunction with the recent retail sales benchmarking (see *Opening Comments*), and along with still-pending trade and production benchmark revisions, recent GDP history should come out weaker than previously estimated, with the pending July 30th benchmark revision to that series.

***[Updated Consensus]* Index of Industrial Production (April 2015).** On Friday, May 15th, the Federal Reserve Board will release its estimate of the index of industrial production for April 2015. Late-expectations [Bloomberg] are for an "unchanged" reading in April production, following a headline decline of 0.6% (-0.6%) in March, but downside reporting surprises are likely in terms of headline monthly detail and/or prior-period revisions.

An "unchanged" headline monthly reading is well within the scope of likely headline reporting, but downside-reporting risks remain are a good bet, with an outright monthly contraction in April and/or significant downside revisions to prior reporting of recent months. As with real retail sales (see the *Opening Comments*), the new production data may help to set the stage for a second consecutive quarterly decline in real GDP, in second-quarter 2015, following on top of a first-quarter GDP real contraction, in revision.