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

COMMENTARY NUMBER 719
April Production, PPI, Durable-Goods Benchmark, Consumer Update

May 15, 2015

It Is Beginning to Look a Lot Like a "New" Recession

Down in First-Quarter 2015,
Industrial Production Just Tumbled into the Second-Quarter

Longest String of Monthly Production Declines and Worst Annual and Quarterly Activity Since the Collapse

April PPI Plunge Was Statistically-Warped Nonsense

Downside Revisions to 2013 and 2014 Industrial Production and GDP Suggested by Benchmark Revisions to Durable Goods Orders

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PLEASE NOTE: The next regular Commentary*, scheduled for Tuesday, May 19th, will cover April 2015 housing starts, followed by a* Commentary *on Friday, May 22nd, covering the April 2015 CPI and existing home sales.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

"New" Recession Likely to Be Timed Formally from December 2014. Industrial production appears headed for its second, consecutive quarterly contraction. First-quarter 2015 industrial production fell at a at an annualized quarterly pace of 0.66% (-0.66%), with second-quarter 2015 production declining at an initial annualized pace of 1.98% (-1.98%), based on April 2015 headline detail. In order for second-quarter 2015 industrial production to turn positive on a quarterly basis, headline monthly production growth needs to top an unlikely 0.5% in both May and June. Further, in a pattern common to recession, headline production has declined in each of the last five months, with annual growth falling below 2.0%, a level last seen (except for a special circumstance) at the onset of the economic collapse.

Discussed in *Commentary No. 718*, the retail sales series, both before and after inflation adjustment, is generating similar signals.

What formally was an annualized pace of 0.2% annualized real GDP growth for first-quarter 2015, most likely will revise to an outright contraction in the May 29th GDP first revision (see *Commentary No. 715*). Separately, the July 30th initial estimate of second-quarter 2015 real GDP likely also will be in headline contraction, creating a circumstance that should be recognized as a formal "new" recession, although the inherent economic weakness actually remains an ongoing element of the economic collapse into 2009.

With the numbers as they stand—barring intervening revisions—the December 2014 downturn in industrial production likely will be marked as the onset of the "new" recession. Coincident with the July 30th release of the second-quarter GDP first estimate, the annual benchmark revision to the GDP also should show recent economic activity to have been weaker than previously indicated. Such will follow a catch-up benchmark revision to the industrial production series on July 21st. That also should show weaker-than-previously-estimated activity, as suggested by the new orders for durable goods benchmark revision (see coverage later in these *Opening Comments*).

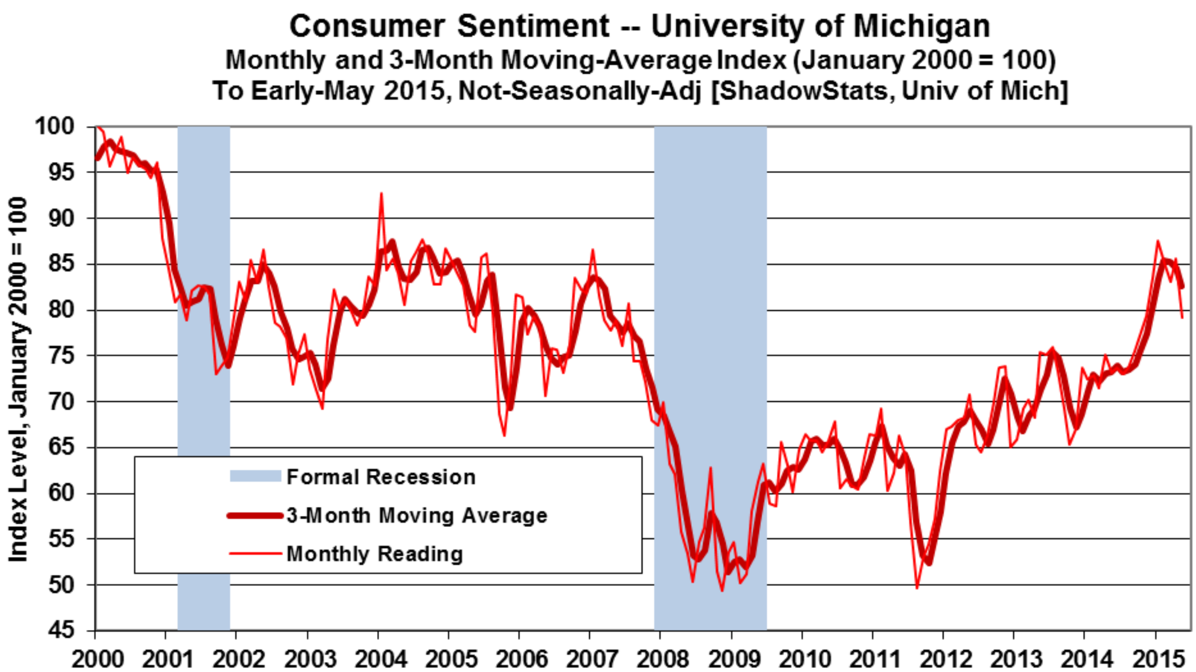
The broad economic outlook will be reviewed more extensively in the May 22nd *Commentary No. 721*, which will cover April reporting for the headline CPI-U inflation and related real-retail sales. Prior to July 30th, market expectations increasingly should move towards recognition of the developing recession reporting. Intensified dollar selling likely would accompany the shifting market outlook (see *No. 692 Special Commentary: 2015 - A World Out of Balance*).

Today's Missive (May 15th). The balance of today's *Opening Comments* concentrates on a brief update to consumer liquidity with new consumer-sentiment detail, on the benchmark revision to new orders for durable goods, and on the *Executive Summary* of the headline-reporting detail for April 2015 industrial production and the PPI.

The *Hyperinflation Outlook Summary* is not revised from *No. 711*. Separately, the *Week Ahead* section previews next week's releases of the April CPI, housing starts and existing-home sales.

Consumer Liquidity Update—Early-May 2015 Consumer Sentiment Plunged. Noted in the *Consumer Liquidity* section of the May 13th *Commentary No. 718*, "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."

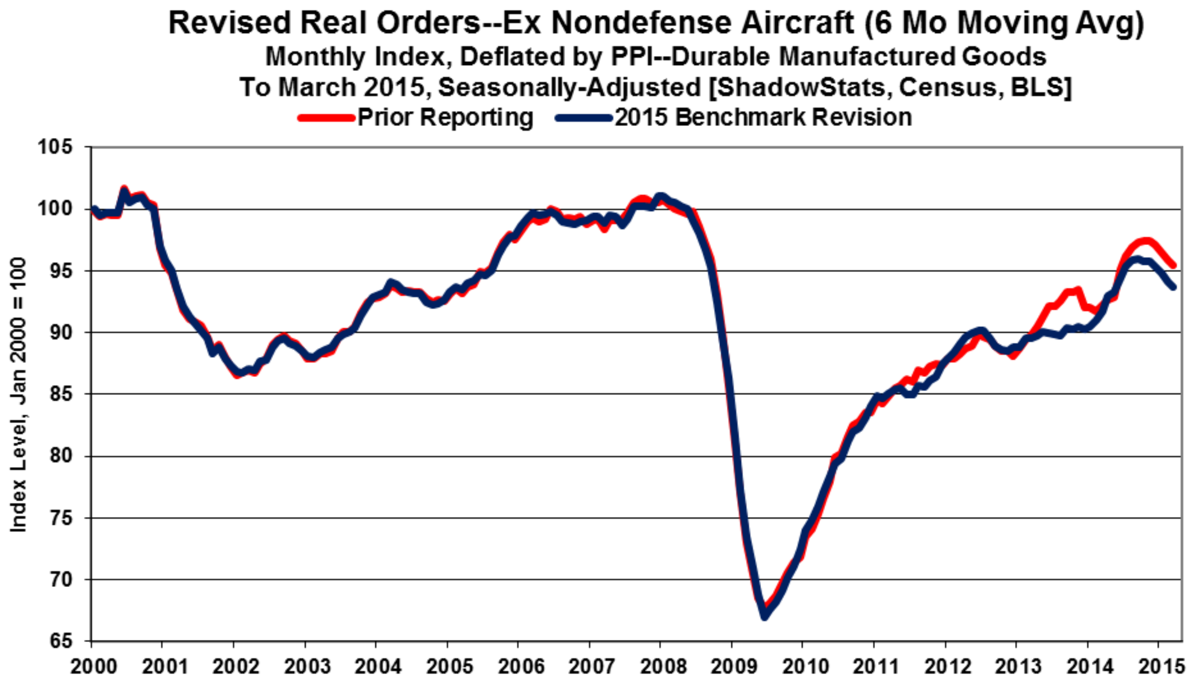
Such was the circumstance with today's (May 15th) publication of the early-May 2015 reading of the University of Michigan's Consumer Sentiment measure. Shown in the accompanying graph, the early-May sentiment reading fell by 7.6% (-7.6%) from the level surveyed for the full month of April 2015.

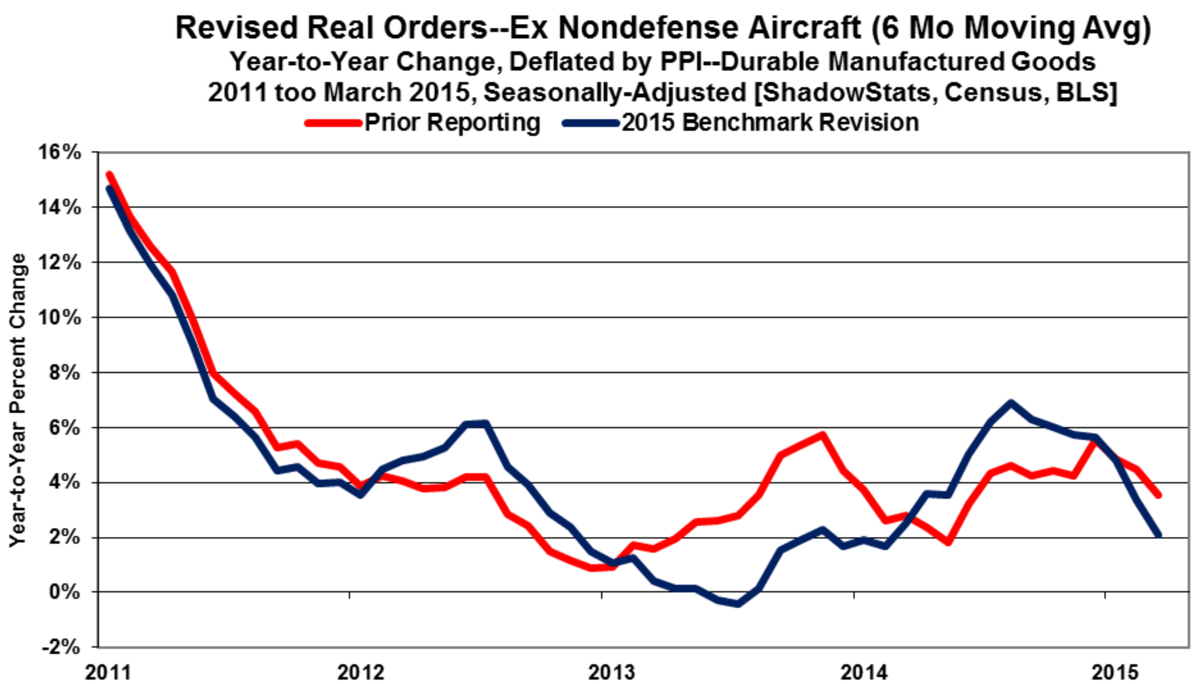


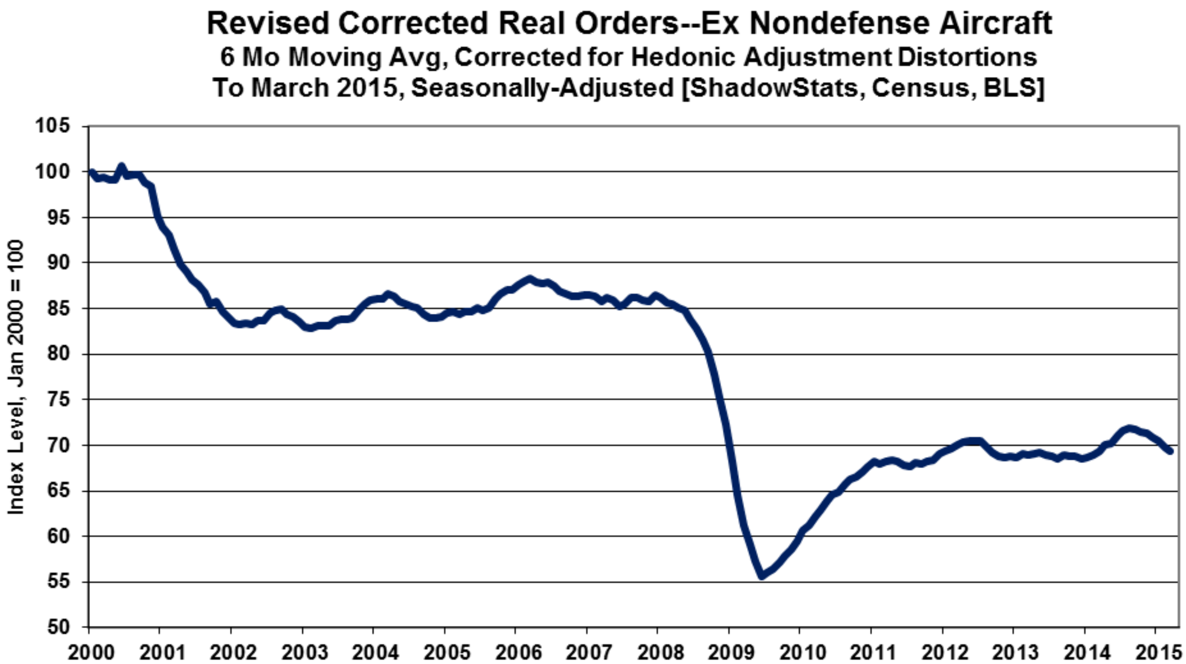
New Orders for Durables Goods—2015 Annual Benchmark Revision. The Census Bureau published the annual benchmark revisions to new orders for durable goods on May 14th. With changes back to 1992, the bulk of the revisions were after 2010. The new detail showed an upside revision to order activity in 2012, but downside revisions into 2013 and 2014, with some carry-through to date. Implications are for some upside revisions to GDP growth in 2012, and downside revisions thereafter.

Noted in the regular *Commentaries* covering the orders series (see *Commentary No. 714*), there is a high level, often an extreme level, of monthly volatility in the headline reporting, tied to the irregular patterns of nondefense- or commercial-aircraft orders. Where the aircraft orders usually are placed years in advance of production and delivery, looking at the new orders series, ex-commercial aircraft and smoothed with a six-month moving average, tends to give a meaningful indication of what is developing in industrial sector activity—effectively a leading indication as to industrial production activity.

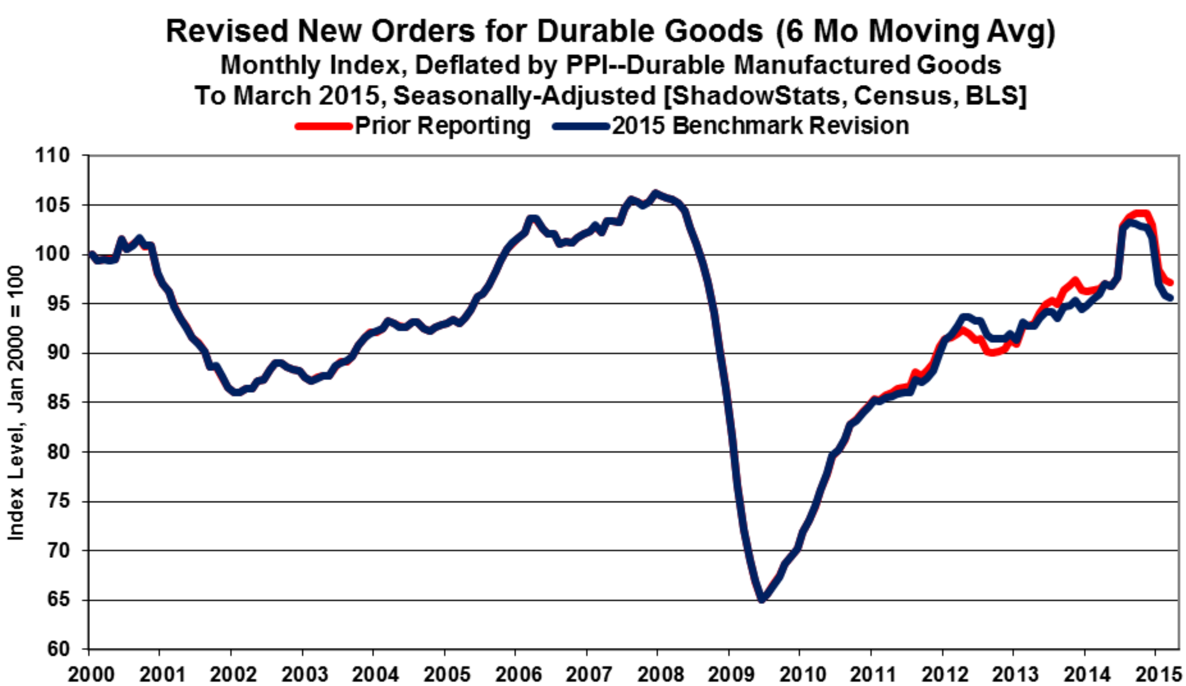
The first two graphs show the revisions in terms of level and year-to-year growth in the real (inflation-adjusted) ex-commercial-aircraft orders series. The third graph shows the revised ShadowStats-corrected version of the smoothed, ex-aircraft series (corrected for the understatement of inflation used in deflating the orders, as discussed in *Commentary No. 714*).



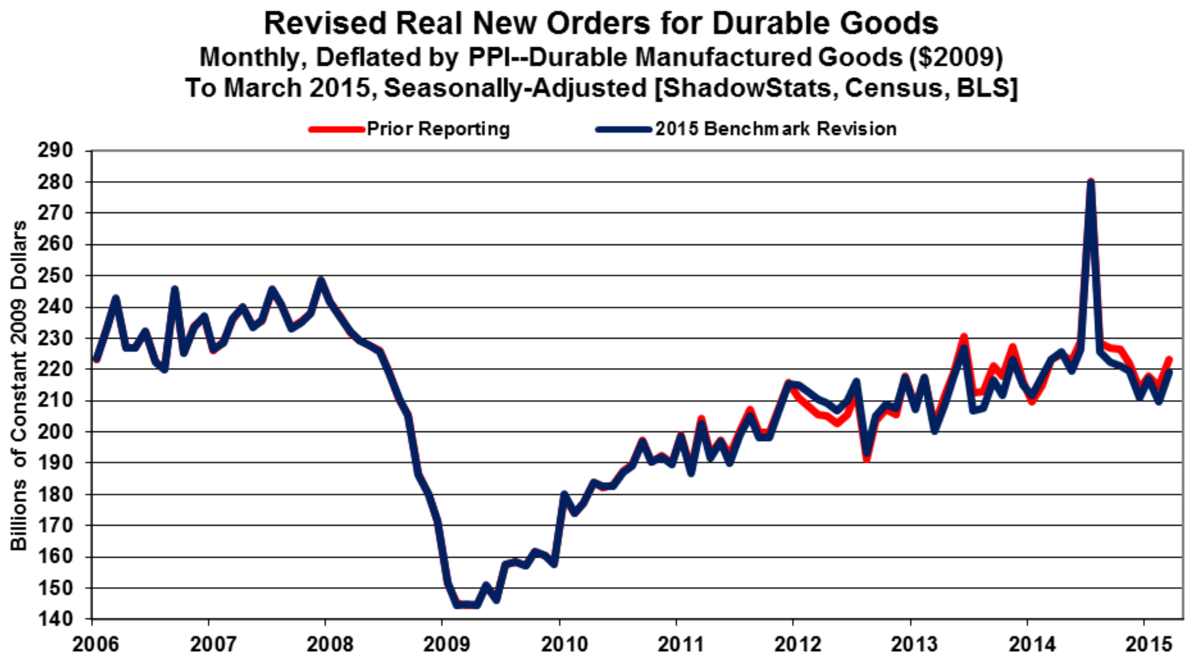


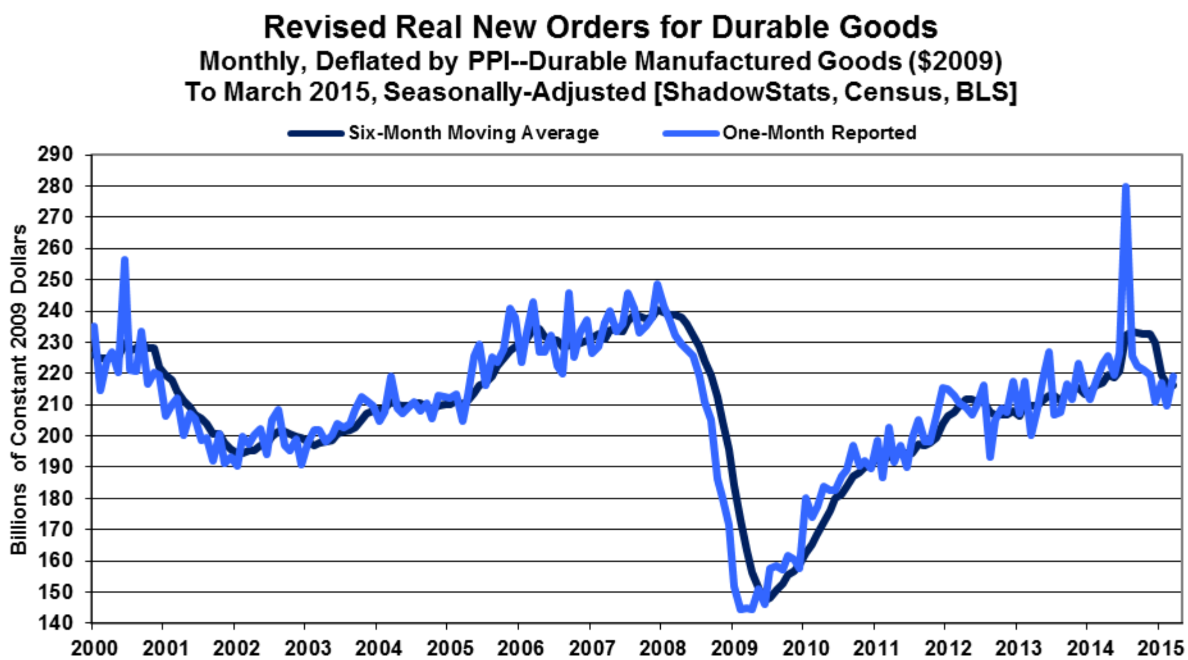


The next graph shows revised and prior real levels of orders for the aggregate series, with a similar pattern of revisions, but with a big hump in 2014 orders tied to extreme volatility in commercial aircraft orders.

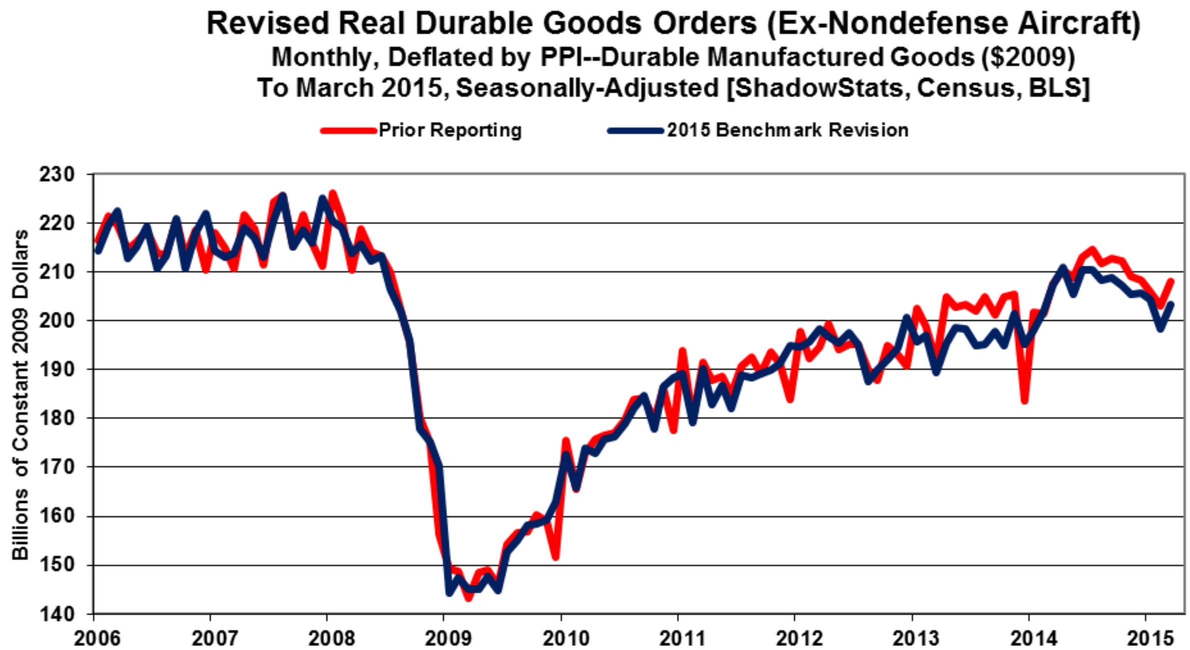


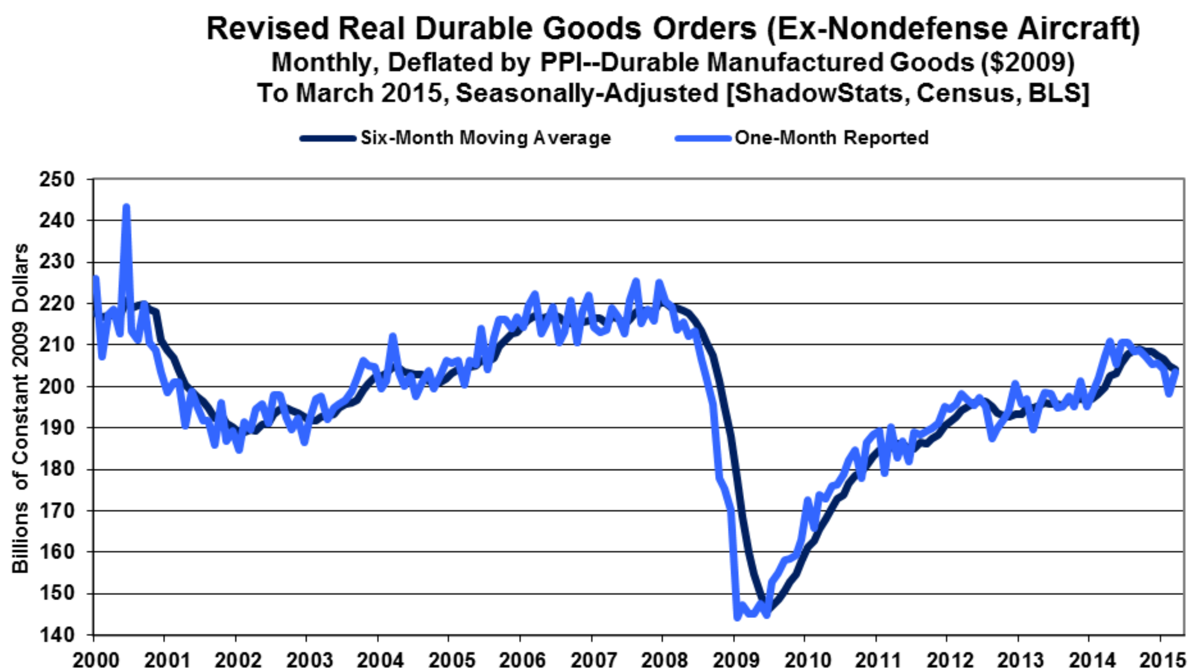
The next two graphs show the aggregate real series by month, where the first graph shows the revisions and prior levels in the timeframe where they are visible, and the second graph shows just the restated levels, as regularly plotted in the *Commentaries*, for January 2000 to date.





The last two graphs show the real ex-aircraft series by month, where the first graph shows the revisions and prior levels in the timeframe where they are visible, and the second graph shows just the restated levels as regularly plotted, in the *Commentaries*, for January 2000 to date.





Further detail on this benchmarking will follow with the regular ShadowStats coverage of the headline April 2015 new orders for durable goods, scheduled for release on May 26th. There are unusual patterns in revisions to some of the major durable goods categories and to some non-durable goods numbers, also released, which may be indicative of some surveying and definitional issues responsible for some unusually large, revised jumps in what otherwise should have been reasonably-stable categories.

Index of Industrial Production—April 2015—Second Consecutive Quarterly Contraction Indicated by April Detail. Reflecting protracted and broad weakness in monthly industrial production—indicated in headline reporting for April 2015—first-quarter 2015 industrial production fell at a revised, annualized quarterly pace of 0.66% (-0.66%), with second-quarter 2015 production declining at an initial annualized pace of 1.98% (-1.98%), based solely on the headline April production detail. As to earlier quarters, annualized quarterly production growth for fourth-quarter 2014 was a positive 4.58%, versus 4.08% in third-quarter 2014.

In order for second-quarter 2015 production to hold flat with the first-quarter (assuming no further revisions to the current headline January through April 2015 reporting), monthly production growth of 0.5% per month would be needed in May and June. While such monthly growth is possible, it is not likely in the current environment of slowing business activity. Headline production growth has been negative in each of the five most recent months, and recent reporting of retail sales and new orders for durable goods also has signaled a looming downturn.

The contraction in first-quarter 2015 industrial production was the first-quarterly contraction in the series since second-quarter 2009, the formal trough of the recent economic collapse. A string of five month-to-month contractions in production, and annual production growth slowing to below 2.0%—as all as seen in April 2015—usually do not occur other than at the onset of a recession (see later discussion). The Fed's industrial production series is indicating that broad economic activity has entered a "new" recession, likely to be timed officially from December of 2014.

Industrial Production—Headline April 2015 Detail. Headline industrial production declined by 0.26% (-0.26%) in April 2015, the fifth consecutive monthly decline, following a revised March drop of 0.32% (-0.32%), a revised February decline of 0.06% (-0.06%), a revised January decline of 0.34% (-0.34%) and an unrevised December decline of 0.05% (-0.05%).

Net of prior-period revisions, April 2015 production contracted month-to-month by 0.04% (-0.04%). The headline April contraction was of 0.3% (-0.3%) was weaker than consensus expectations for an unchanged April production level [Bloomberg].

By major industry group, the headline April 2015 monthly decline of 0.3% (-0.3%) [March 2015 decline of 0.3% (-0.3%)] in aggregate production was composed of "unchanged" manufacturing activity in April [a March gain of 0.3%]; an April decline of 0.8% (-0.8%) [March decline of 0.1% (-0.1%)] in mining (oil and gas production); and an April decline of 1.3% (-1.3%) [March decline of 5.4% (-5.4%)] in weather-affected utilities.

Year-to-year growth in April production slowed to 1.93%, from a revised 2.28% gain in March 2015, a revised 3.46% gain in February 2015, a revised annual gain of 4.50% in January 2015, and an unrevised gain of 4.59% in December 2014. Other than for a one-month dip in year-to-year production growth to

1.78% in July 2013—tied to distortions from shifts in automobile production—annual growth has not slowed to below 1.93% since February 2008, when the U.S. economic collapse began to intensify.

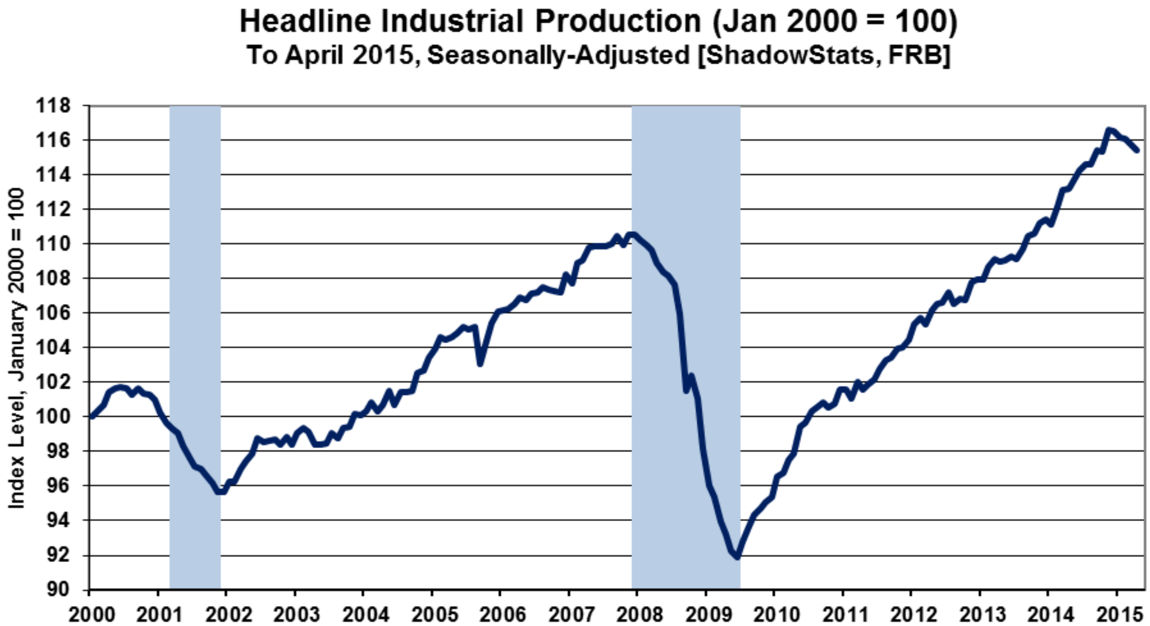
Production Graphs—Corrected and Otherwise. The *Reporting Detail* section includes the regular graphs of the industrial production level and year-to-year change, through April 2015. The level of headline production showed a topping-out process late in 2014, followed by renewed downturn in first-quarter 2015 and into the early second-quarter 2015. The patterns of monthly and quarterly declines were last seen in the depths of the economic collapse from 2007 (or earlier) into 2009.

The two graphs that follow in this section address reporting quality issues tied just to the overstatement of headline growth that directly results from the Federal Reserve Board using too-low an estimate of inflation in deflating some components of its production estimates into real dollar terms, for inclusion in the index of industrial production.

Hedonic quality adjustments to the inflation estimates understate the inflation rates used in deflating those components. Such 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 following 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 "corrected" graphics (including real retail sales, new orders for durable goods and the GDP); 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 recast version of the first, corrected for the estimated understatement of the inflation used in deflating components of 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. 715*). 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, but up-trending, stagnation in 2010, with irregular quarterly contractions seen through 2014, and an irregular uptrend into 2014, a topping-out in late-2014 and now a downturn into the first two quarters of 2015. Where the corrected series has remained well shy of a formal recovery, both the official and corrected series suffered renewed quarterly contractions in first-quarter 2015 and are on track for a continued quarterly contraction in second-quarter 2015.


Headline Industrial Production (Jan 2000 = 100)
To April 2015, Seasonally-Adjusted [ShadowStats, FRB]
Index Level, January 2000 = 100
118
116
114
112
110
108
106
104
102
100
98
96
94
92
90
2000
2001
2002
2003
2004
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2011
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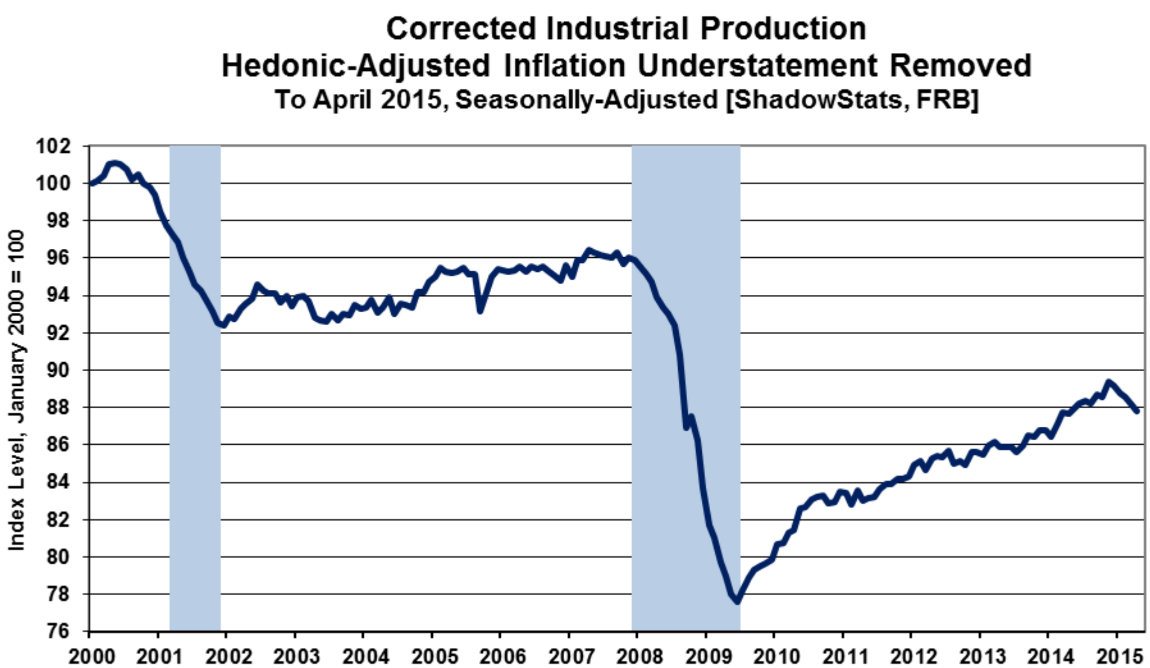
2013
2014
2015


Corrected Industrial Production
Hedonic-Adjusted Inflation Understatement Removed
To April 2015, Seasonally-Adjusted [ShadowStats, FRB]
Index Level, January 2000 = 100
102
100
98
96
94
92
90
88
86
84
82
80
78
76
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
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2015

Producer Price Index (PPI)—April 2015—Real-World Energy Prices Spiked, but the Increasingly Squirrelly PPI Numbers Plunged by 0.4% (-0.4%). With the exception of "construction," the major April PPI categories declined month-to-month, despite anecdotal evidence of rising food and energy costs, and encouraged by the upside-down inflation effects often seen in service-industries margins used as a faux surrogates for services inflation.

Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices gained 6.5% and 13.9% in April, along an increase of 0.4% in the unadjusted monthly-average, retail-gasoline price (Department of Energy). Although the PPI seasonal adjustments for energy costs in April were negative, energy inflation was negative for the month even before being battered by the BLS seasonals. A resulting seasonally-adjusted decline of 4.7% (-4.7%) in gasoline prices dominated the negative-inflation detail in the PPI.

From a practical standpoint, the aggregate Final Demand Producer Price Index has little relationship to real-world activity. The problem has been and remains unstable seasonal factors in the goods area, versus shifting market activity, and in the services sector—the dominant component of the index—reflecting profit margins, not prices, where those margins often move in the opposite direction of related prices.

April 2015 Headline PPI Detail. Headline, seasonally-adjusted, month-to-month Producer Price Index (PPI) Final Demand inflation for April 2015 fell by 0.36% (-0.36%), versus a 0.18% monthly increase in March.

The impact of seasonal adjustments on the headline aggregate April PPI change was minimally positive, with the unadjusted month-to-month April inflation falling by 0.27% (-0.27%), versus a 0.46% unadjusted gain in March. Also on a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year headline PPI inflation dropped by 1.21% (-1.21%) in April 2015, versus a decline of 0.81% (-0.81%) in March 2015.

For the three major subcategories of April 2015 Final Demand PPI, headline monthly Final Demand Goods inflation declined by 0.73% (-0.73%), Final Demand Services inflation fell by 0.09% (-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 fell by 0.73% (-0.73%) in April 2015, having risen by 0.28% in March 2015. There was an aggregate positive impact on the headline April 2015 reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, April final demand goods inflation fell by 0.37% (-0.37%) for the month.

Unadjusted, year-to-year goods inflation was down by 5.47% (-5.47%) in April 2015, versus an annual decline of 4.37% (-4.37%) in March 2015.

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

- "Foods" inflation dropped by 0.93% (-0.93%) in April 2015, versus a decline of 0.75% (-0.75%) in March, with April's headline monthly contraction made more negative by seasonal adjustments. Unadjusted, April food inflation fell by 0.42% (-0.42%) in the month. Unadjusted and year-to-year, April 2015 foods inflation fell by 4.23% (-4.23%), with the index having been down by 1.42% (-1.42%) for the year in March 2015.

- "Energy" inflation fell by 2.90% (-2.90%) in April 2015, having risen by 1.52% in March, with the April reading again hit heavily by negative seasonal adjustments. Unadjusted, April energy inflation fell by 1.40% (-1.40%) month-to-month. Unadjusted and year-to-year, April 2015 energy inflation fell by a steeper 23.96% (-23.96%) than had been seen in March 2015, which was down by 21.74% (-21.74%).
- "Less foods and energy" or "core" goods inflation declined by 0.09% (-0.09%) in April 2015, reversing the gain of 0.09% reported for March. Seasonal adjustments were neutral for monthly core inflation, with a decline of 0.09% (-0.09%) also seen in the unadjusted April number. Unadjusted and year-to-year, April 2015 core inflation slowed to a gain of 0.27%, versus an annual gain of 0.55% in March 2015.

Final Demand Services (Weighted at 63.29% of the Aggregate). Headline monthly Final Demand Services inflation fell by 0.09% (-0.09%) in April 2015, having risen by 0.09% in March 2015. The overall impact on the April month-to-month services inflation reading, from underlying seasonal-factor adjustments, was a small plus, with an unadjusted April contraction of 0.18% (-0.18%).

Year-to-year unadjusted services inflation was 0.92% in April 2015, versus 1.01% in March 2015.

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

- "Services less trade, transportation and warehousing" or the "Other" category showed inflation up by 0.18% in April 2015, after a gain of 0.28% in March. Seasonal-adjustment impact on the adjusted April detail was positive, where the unadjusted April 2015 was "unchanged" versus March. Unadjusted and year-to-year, April 2015 "other" services inflation gained 1.21%, versus a 1.12% annual increase in March.
- "Transportation and warehousing" inflation declined month-to-month by 0.09% (-0.09%) in April 2015, having fallen by 0.17% (-0.17%) in March. Seasonal adjustments had a negative impact, with an unadjusted monthly gain of 0.09% in April. Unadjusted and year-to-year, April 2015 transportation inflation fell by 1.86% (-1.86%), following an annual contraction in March 2015 of 1.36% (-1.36%).
- "Trade" inflation dropped by 0.81% (-0.81%) in April 2015, having declined by 0.18% (-0.18%) month-to-month in March. Seasonal adjustments also had a negative impact here, where the unadjusted inflation change in April was for a month-to-month decline of 0.72% (-0.72%). Unadjusted and year-to-year, April 2015 trade inflation rose by 1.01%, having gained 1.27% in March 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 April 2015, at the same monthly pace of gain as in March and February. The impact of seasonal factors on the April reading was neutral. On an unadjusted basis, month-to-month April 2015 construction inflation also was up by 0.09%.

On an unadjusted basis, year-to-year construction inflation was 1.72% in April 2015, versus 1.91% in March 2015.

[The* Reporting Detail *section includes further detail on April industrial production and the PPI.]

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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.

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

INDEX OF INDUSTRIAL PRODUCTION (April 2015)

Second Consecutive Quarterly Contraction Indicated by April Production Detail. Reflecting protracted and broad weakness in monthly industrial production—as indicated in the headline reporting of April 2015—first-quarter 2015 industrial production fell at a revised, annualized quarterly pace of 0.66% (-0.66%) [previously down by 0.97% (-0.97%)], with second-quarter 2015 production declining at an initial annualized pace of 1.98% (-1.98%), based solely on the headline April production detail. As to earlier quarters, annualized quarterly production growth for fourth-quarter 2014 was a positive 4.58% (revised from 4.63%), versus an unrevised 4.08% in third-quarter 2014.

In order for second-quarter 2015 production to hold flat with the first-quarter (assuming no further revisions to the current headline January through April 2015 reporting), monthly production growth of 0.5% per month in May and June would be needed. While such monthly growth rates are possible, they are not likely in the current environment of slowing business activity. Headline production growth has been negative in each of the five most recent months, and recent reporting of retail sales and new orders for durable goods also has signaled a looming downturn.

The contraction in first-quarter 2015 production was the first-quarterly contraction in the series since second-quarter 2009, the formal trough of the recent economic collapse. The current string of five month-to-month contractions in production, and annual production growth slowing to below 2.0%—as seen in April 2015—usually do not occur other than at the onset of a recession (see later discussion). Accordingly, the Fed's industrial production series is indicating that broad economic activity has entered a "new" recession, likely to be timed officially from December of 2014.

Industrial Production—April 2015. The Federal Reserve Board released its first estimate of seasonally-adjusted, April 2015 industrial production this morning (May 15th). Headline monthly production declined by 0.26% (-0.26%) in April, the fifth consecutive monthly decline. That following a revised drop of 0.32% (-0.32%) [previously down by 0.64% (-0.64%)] in March, a revised February decline of 0.06% (-0.06%) in [previously a gain of 0.10%, initially up by 0.07%], a revised January decline of 0.34% (-0.34%) [previously down by 0.41% (-0.41%), by 0.32% (-0.32%) and initially up a 0.15% gain], and an unrevised December decline of 0.05% (-0.05%).

Net of prior-period revisions, April 2015 production contracted month-to-month by 0.04% (-0.04%). The headline April contraction was of 0.3% (-0.3%) was weaker than consensus expectations for an unchanged April production level [Bloomberg].

By major industry group, the headline April 2015 monthly decline of 0.3% (-0.3%) [March 2015 decline of 0.3% (-0.3%)] in aggregate production was composed of "unchanged" manufacturing activity in April [a March gain of 0.3%]; an April decline of 0.8% (-0.8%) [March decline of 0.1% (-0.1%)] in mining (oil and gas production); and an April decline of 1.3% (-1.3%) [March decline of 5.4% (-5.4%)] in weather-affected utilities.

Year-to-year growth in April production slowed to 1.93%, from a revised 2.28% [previously 2.05%] gain in March 2015, a revised 3.46% [previously 3.56%, initially 3.47%] gain in February 2015, a revised annual gain of 4.50% [previously 4.42%, 4.36% and initially 4.81%] in January 2015, and an unrevised gain of 4.59% in December 2014. Other than for a one-month dip in year-to-year production growth to 1.78 % in July 2013—tied to distortions from shifting automobile production—the annual growth has not slowed to below 1.93% since February 2008, as the U.S. economic collapse began to intensify.

July 21st Benchmark Revisions Should Show Weaker Historical Production, with Negative Implications for GDP Benchmarking. Today's (May 15th) industrial production press release announced a July 21st date for the 2015 annual revision to the production series. With the formal revisions just a little over one-week shy of the July 31st annual revisions to the GDP, the new production detail should be available for incorporation into the GDP revisions.

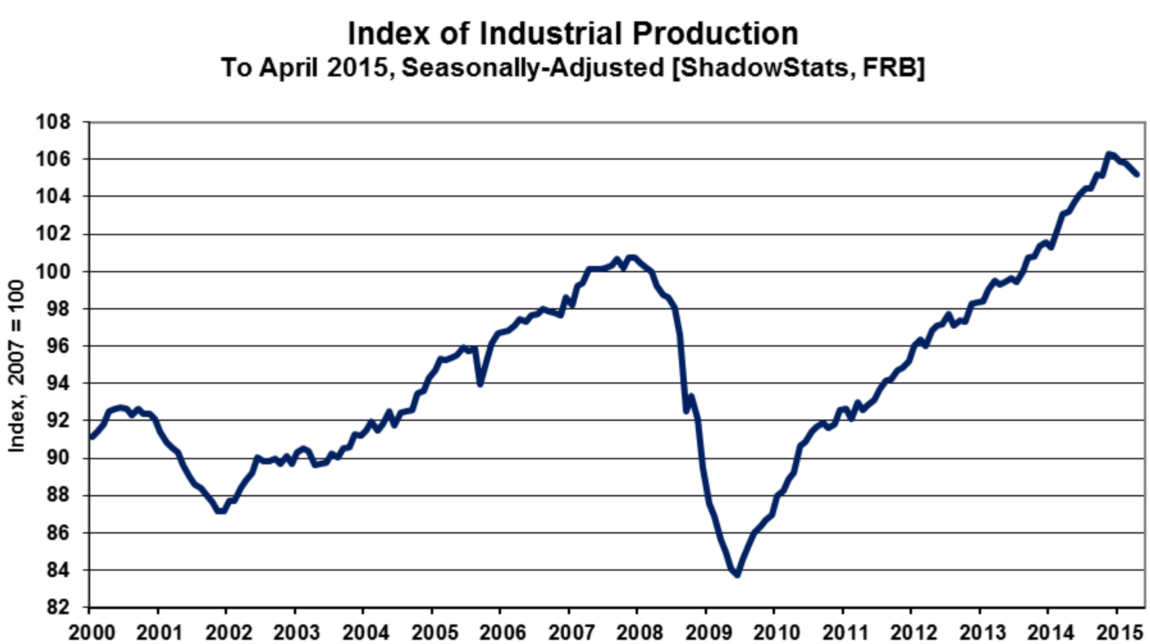
The Federal Reserve's revisions to the industrial production series will correct historical detail for more complete information, as it has become available, along with redefinitions back to 1972. Last year's

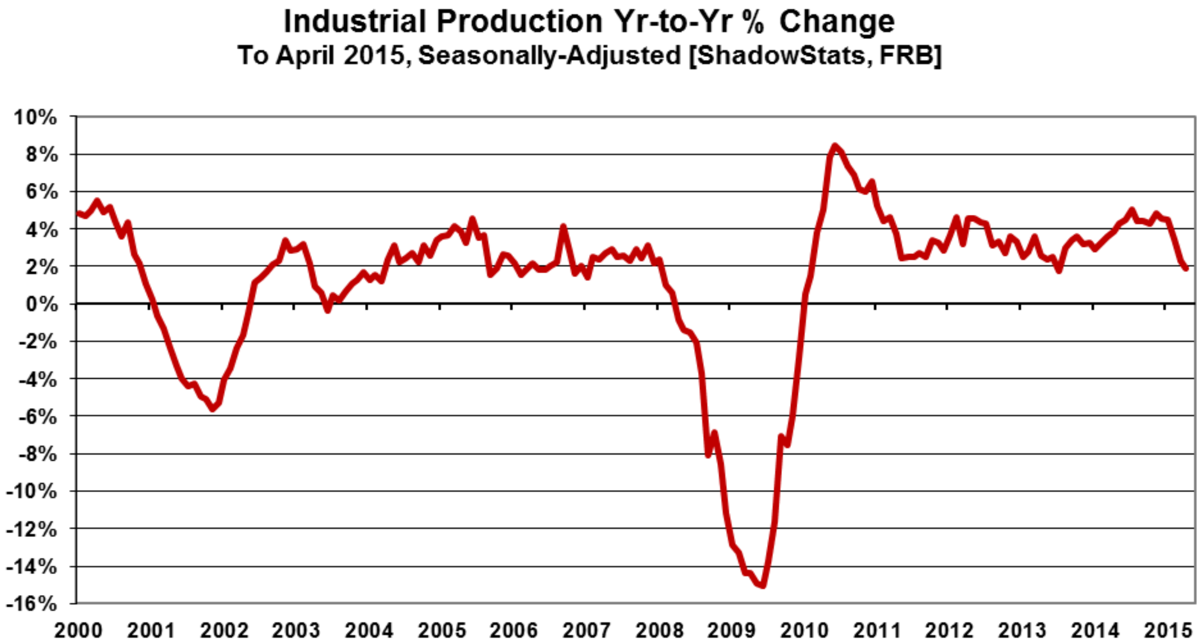
(March 2014) benchmark revision largely incomplete, lacking detail from the regular Census of Manufactures (2012), which apparently had been delayed in its release by the government shutdown of October 2013. As a result, what should have been massive downside revisions to 2012 and 2013 industrial production activity (and broader GDP activity) never took place (see *Commentary No. 613*). That should be corrected on July 21st.

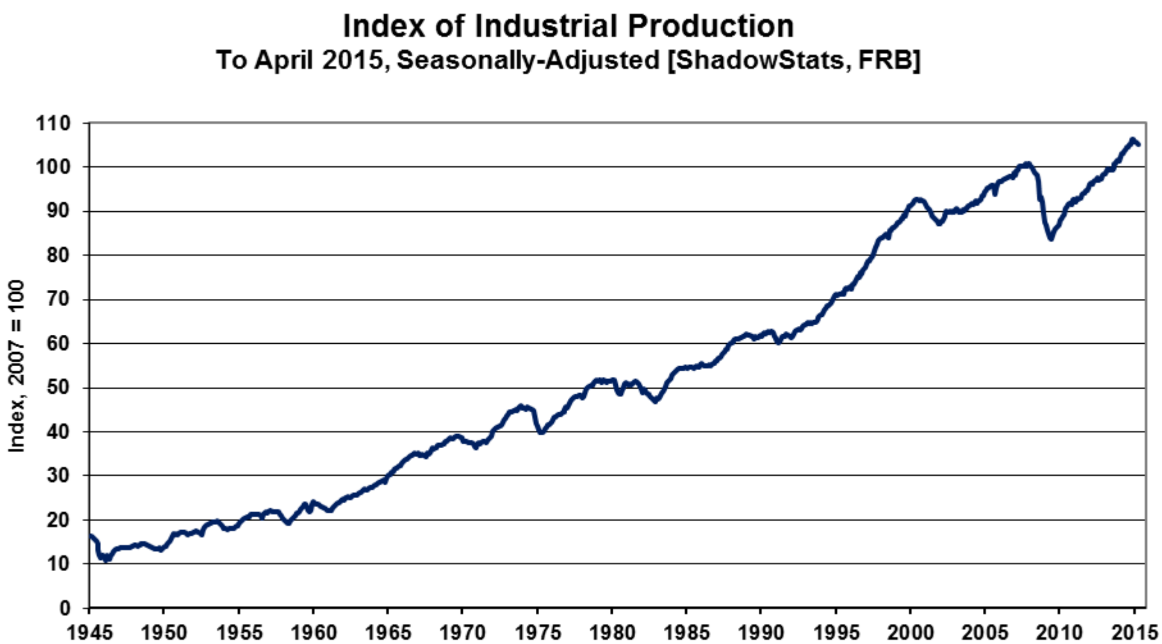
Production Graphs. The following two sets of graphs reflect headline industrial production activity to date. The first graph in the first set shows the monthly level of the production index, with a topping-out and renewed downturn—monthly and quarterly contractions—seen in the last five months of reporting. Such patterns of monthly and quarterly decline were last seen in the depths of the economic collapse from 2007 (or earlier) into 2009.

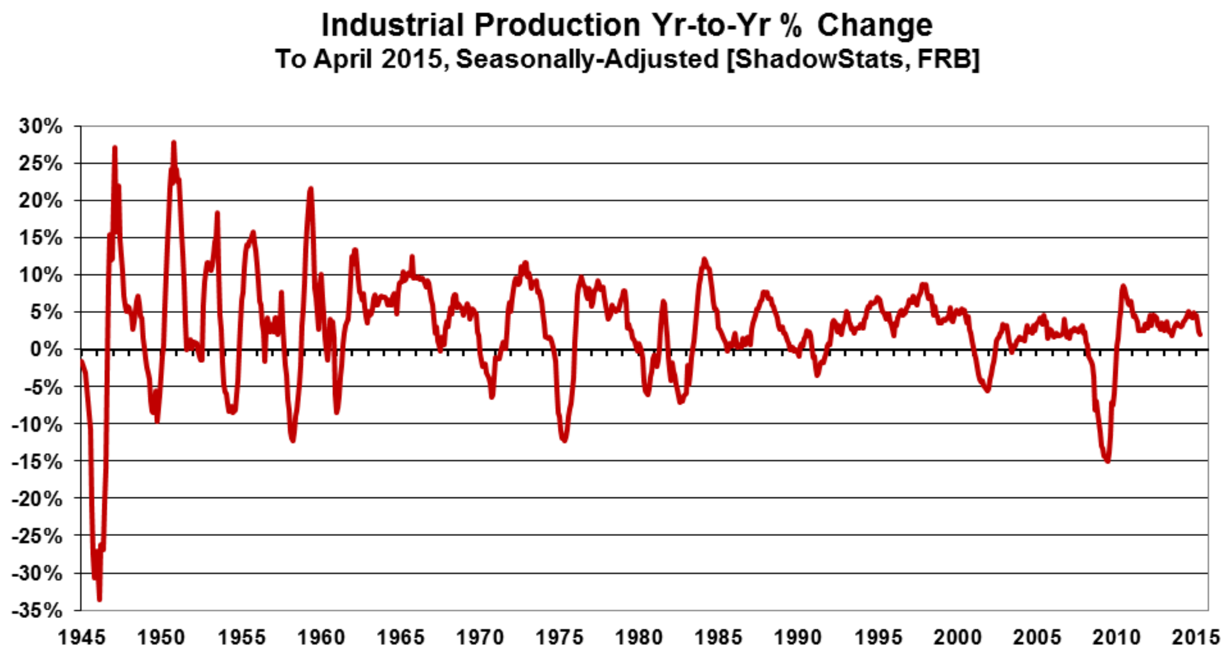
The second graph shows the year-to-year percentage change in the same series for recent historical detail, beginning January 2000. Annual growth has slowed sharply, to a level that almost always precedes or accompanies the onset of headline recessions (the circumstance with the 2001 recession lingered into 2003, see *2014 Hyperinflation Report—Great Economic Tumble*). 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 2013, again, 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.




Industrial Production Yr-to-Yr % Change
To April 2015, Seasonally-Adjusted [ShadowStats, FRB]
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
-14%
-16%
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015


Index of Industrial Production
To April 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



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 and likely second-quarter 2015 as well. The "corrected" series remains well shy of a formal recovery.

PRODUCER PRICE INDEX—PPI (April 2015)

Real-World Oil Prices Spiked in April, but the Increasingly Squirrelly PPI Numbers Plunged by 0.4% (-0.4%). With the exception of "construction," the major April PPI categories declined month-to-month, despite anecdotal evidence of rising food and energy costs and encouraged by the upside-down inflation effects often seen in service-industries margins used as a faux surrogates for services inflation.

Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices gained 6.5% and 13.9% in April, along an increase of 0.4% in the unadjusted monthly-average, retail-gasoline price (Department of Energy). Although the PPI seasonal adjustments for energy costs in April were negative, energy inflation was negative for the month even before being battered by the BLS seasonals. A resulting seasonally-adjusted decline of 4.7% (-4.7%) in gasoline prices dominated the negative-inflation detail in the PPI.

From a practical standpoint, the aggregate Final Demand Producer Price Index has little relationship to real-world activity. The problem has been and remains unstable seasonal factors in the goods area, versus shifting market activity, and in the services sector—the dominant component of the index—reflecting profit margins, not prices, where those margins often move in the opposite direction of related prices.

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.

April 2015 Headline PPI Detail. The Bureau of Labor Statistics (BLS) reported May 14th, that seasonally-adjusted, month-to-month, headline Producer Price Index (PPI) Final Demand inflation for April 2015 fell by 0.36% (-0.36%), versus a 0.18% monthly increase in March.

The impact of seasonal adjustments on the headline monthly April aggregate PPI change was minimally positive, with the unadjusted month-to-month April inflation falling by 0.27% (-0.27%), versus a 0.46% unadjusted gain in March. Also on a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year headline PPI inflation dropped by 1.21% (-1.21%) in April 2015, versus a decline of 0.81% (-0.81%) in March 2015.

For the three major subcategories of April 2015 Final Demand PPI, headline monthly Final Demand Goods inflation declined by 0.73% (-0.73%), Final Demand Services inflation fell by 0.09% (-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 fell by 0.73% (-0.73%) in April 2015, having risen by 0.28% in March 2015. There was an aggregate positive impact on the headline April 2015 reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, April final demand goods inflation fell by 0.37% (-0.37%) for the month.

Unadjusted, year-to-year goods inflation was down by 5.47% (-5.47%) in April 2015, versus an annual decline of 4.37% (-4.37%) in March 2015.

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

- "Foods" inflation dropped by 0.93% (-0.93%) in April 2015, versus a decline of 0.75% (-0.75%) in March, with April's headline monthly contraction made more negative by seasonal adjustments. Unadjusted, April food inflation fell by 0.42% (-0.42%) in the month. Unadjusted and year-to-year, April 2015 foods inflation fell by 4.23% (-4.23%), with the index having been down by 1.42% (-1.42%) for the year in March 2015.
- "Energy" inflation fell by 2.90% (-2.90%) in April 2015, having risen by 1.52% in March, with the April reading again hit heavily by negative seasonal adjustments. Unadjusted, April energy inflation fell by 1.40% (-1.40%) month-to-month. Unadjusted and year-to-year, April 2015 energy inflation fell by a steeper 23.96% (-23.96%) than had been seen in March 2015, which was down by 21.74% (-21.74%).
- "Less foods and energy" or "core" goods inflation declined by 0.09% (-0.09%) in April 2015, reversing the gain of 0.09% reported for March. Seasonal adjustments were neutral for monthly core inflation, with a decline of 0.09% (-0.09%) also seen in the unadjusted April number. Unadjusted and year-to-year, April 2015 core inflation slowed to a gain of 0.27%, versus an annual gain of 0.55% in March 2015.

Final Demand Services (Weighted at 63.29% of the Aggregate). Headline monthly Final Demand Services inflation fell by 0.09% (-0.09%) in April 2015, having risen by 0.09% in March 2015. The overall impact on the April month-to-month services inflation reading, from underlying seasonal-factor adjustments, was a small plus, with an unadjusted April contraction of 0.18% (-0.18%).

Year-to-year unadjusted services inflation was 0.92% in April 2015, versus 1.01% in March 2015.

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

- "Services less trade, transportation and warehousing" or the "Other" category, showed inflation up by 0.18% in April 2015, after a gain of 0.28% in March. Seasonal-adjustment impact on the adjusted April detail was positive, where the unadjusted April 2015 was "unchanged" versus March. Unadjusted and year-to-year, April 2015 "other" services inflation gained 1.21%, versus a 1.12% annual increase in March.
- "Transportation and warehousing" inflation declined month-to-month by 0.09% (-0.09%) in April 2015, having fallen by 0.17% (-0.17%) in March. Seasonal adjustments had a negative impact, with an unadjusted monthly gain of 0.09% in April. Unadjusted and year-to-year, April 2015 transportation inflation fell by 1.86% (-1.86%), following an annual contraction in March 2015 of 1.36% (-1.36%).
- "Trade" inflation dropped by 0.81% (-0.81%) in April 2015, having declined by 0.18% (-0.18%) month-to-month in March. Seasonal adjustments also had a negative impact here, where the unadjusted inflation change in April was for a month-to-month decline of 0.72% (-0.72%). Unadjusted and year-to-year, April 2015 trade inflation rose by 1.01%, having gained 1.27% in March 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 April 2015, at the same monthly pace of gain as in March and February. The impact of seasonal factors on the April reading was neutral. On an unadjusted basis, month-to-month April 2015 construction inflation also was up by 0.09%.

On an unadjusted basis, year-to-year construction inflation was 1.72% in April 2015, versus 1.91% in March 2015.

Discussed in *Commentary No. 713*, ShadowStats uses the "final demand construction" index for deflating headline activity in the monthly construction-spending series. The April construction spending series will be released on June 3rd and covered in the ShadowStats *Commentary* of that date.

PPI-Inflation Impact on Pending Reporting of Durable Goods. As to the upcoming reporting of April 2015 new orders for durable goods, unadjusted monthly inflation for new orders for manufactured durable goods in April 2015 was a decline of 0.24% (-0.24%), versus a 0.06% gain in March. Annual inflation was 0.42% in April 2015, versus 0.72% in March 2015. April 2015 durable goods orders will be released on May 26th and covered in the *Commentary* of that date.

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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, and likely close to that again in April. 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 as explored in 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 (April 2015). The Census Bureau will release April 2015 residential construction detail, including housing starts on Tuesday, May 19th. In line with common reporting experience of recent years, monthly results are likely to be unstable and not statistically meaningful. Irrespective of the headline detail, the broad pattern should remain generally consistent with the down-trending stagnation seen currently in the series. Such is particularly evident with the detail 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.

All that said, consensus forecasters either still seem to be expecting the sharp rebound that was not seen in March, subsequent to the plunging activity in February, or they believed the reported surge in construction employment in the otherwise-worthless, April 2015 payroll employment reporting. Even allowing for some rebound in starts, the numbers likely still will disappoint expectations, suffering from unimproved consumer conditions. The broad, general pattern of down-trending stagnation almost certainly 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. 718*, 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 (April 2015). The April 2015 CPI is scheduled for release on Friday, May 22nd, by the Bureau of Labor Statistics (BLS). The headline CPI-U should be on the plus-side for the third month, with early expectations of a headline monthly gain of 0.1% [MarketWatch]. While a small inflation gain is likely, due to higher food and "core" inflation (ex-food and energy), heavily-negative seasonal factors should keep the energy contribution to the headline April CPI on the downside.

The average gasoline price moved higher in April 2015, up by 0.35% for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). BLS seasonal adjustments to gasoline prices in April traditionally are sharply negative, and, shy of BLS "intervention analysis" mitigating the downside adjustment pressures, seasonally-adjusted gasoline prices likely will have fallen in the month by about 3.2%, which by itself would subtract about 0.11% from the headline CPI-U monthly inflation rate. Add in higher food and “core” (net of food and energy) inflation, however, and the consensus expectations are not unreasonable.

Annual Inflation Rate. Year-to-year, CPI-U inflation would increase or decrease in April 2015 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.19% monthly inflation gain reported for April 2014. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for April 2015, the difference in April’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the March 2015 headline negative annual inflation rate of 0.07% (-0.07%). Headline monthly inflation of roughly 0.3% would be needed in April 2015 in order to push the headline annual inflation rate into positive territory.

Existing- and New-Home Sales (April 2015). April 2015 existing-home sales also are due for release on Friday, May 22nd, from the National Association of Realtors, with the April 2015 new-home sales report due from the Census Bureau on Tuesday, May 26th. Still impaired by negative, underlying pressures from stressed consumer liquidity (see *Commentary No. 718*), home-sales activity prospects remain bleak.

Despite monthly gains in February and March 2015 existing-home sales, the longer-term trends in the headline monthly numbers generally have been negative, with flat-to-downside month-to-month activity a good possibility for April 2015 reporting.

Smoothed for extreme and nonsensical monthly gyrations, an ongoing pattern of stagnation or downturn also should continue in play for April 2015 new-home sales. While monthly changes in activity here rarely are statistically-significant, still-unstable reporting and revisions (both likely to the downside) remain a fair bet for April. Reflecting deteriorating consumer issues, both the new- and existing- home sales series increasingly should reflect downside volatility in headline activity.

