John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 721
April CPI, Real Retail Sales and Earnings, Existing-Home Sales, GDP Prospects

May 22, 2015

With Pending GDP Numbers Likely in Contraction,
Pollyannaish Analysts and Media Are Squawking over Data Quality

Bureau of Economic Analysis Promises to "Fix" Wayward GDP

April Real Retail Sales Fell by 0.1% (-0.1%);
Annual Growth Signaled Deepening Recession

Real Earnings Were Unchanged

April Year-to-Year Inflation: -0.2% (CPI-U), -0.8% (CPI-W), 7.4% (ShadowStats)

Revamped Chained-CPI-U Sharply Widened Inflation Understatement,
As Hoped for by Some in the Government

PLEASE NOTE: The next regular Commentary*, scheduled for Tuesday, May 26th, will cover April new orders for durable goods and new-home sales, followed by a* Commentary *on Friday, May 29th, covering the first revision to first-quarter 2015 GDP.*

Best wishes to all for a most enjoyable Memorial Day weekend! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Consensus Expectation Has Shifted to a Revised First-Quarter GDP Contraction. MarketWatch reports a consensus outlook, where the second estimate of first-quarter 2015 real GDP growth will revise from the initial, annualized real quarterly growth rate of a positive 0.2%, to an annualized real quarterly contraction of 1.0% (-1.0%), come May 29th. That pretty much is along the lines of the ShadowStats outlook, as expressed in the April 24th *Commentary No. 714*, prior to the April 29th "advance" release or first estimate of first-quarter 2015 GDP growth:

> "First-quarter 2015 GDP almost certainly contracted sharply, quarter-to-quarter, both before inflation-adjustment (nominal) and after inflation-adjustment (real), but the headline reporting of same may not be seen until the first revision to first-quarter GDP on May 29th.
>
> "With the consensus outlook for the GDP still holding on the upside of 1.0% [*MarketWatch* indicates a consensus of 1.2%] annualized quarterly growth, the Bureau of Economic Analysis (BEA) may keep the first or 'advance' growth estimate for first-quarter 2015 at minimally above zero, despite the clear indications of a quarterly contraction. The BEA did that with last-year's 'advance' estimate for first-quarter 2014 GDP, which turned negative with the first revision. Such was after the BEA effectively signaled the economic consensus and the markets of a pending GDP contraction, with its initial, below-consensus (but not negative) estimate."

That is exactly what the Bureau of Economic Analysis (BEA) did on April 24th, and first-quarter 2015 GDP growth indeed should revise to a contraction in the first revision, second estimate, likely a deeper one than the 1.0% (-1.0%) indicated by the early-consensus outlook.

What is not being discussed widely, however, is that barring extreme swings in in the revised implicit price deflator, where unusual shifts can be seen with trade deficit revisions, the nominal growth rate (not inflation-adjusted) also should contract for the quarter, revising negatively from its initial headline annualized growth rate of 0.1% in first-quarter 2015.

The ShadowStats outlook continues for a subsequent quarterly contraction, in real second-quarter 2015 GDP (see *Commentary No. 719*), which would set a formal "new" recession in place as of July 30th. That circumstance will be discussed anew, subsequent to the April new orders for durable goods report on May 26th, in *Commentary No. 722*. Shy of the unstable and generally meaningless headline monthly reporting of April housing starts, other headline April reporting has been consistent with a second-quarter GDP contraction. The housing numbers should work out in that area as well, in the next month or two.

With a Looming GDP Contraction, Apologists for Government and Fed Policies, and Those Who Need to Report Perpetually Happy News, Are Lambasting GDP Reporting Quality. The last week or so has seen a chorus of criticism arising in the popular financial media as to why the weakness in the GDP is not meaningful, along with suggestions as to how the GDP reporting should be corrected. There even were purported comments from the BEA that they were aware of the reporting issues and would address them. Those who are squawking now generally accepted the nonsensical annualized four-to-five percent quarterly real GDP growth rates in mid-2014 without a question.

The BEA has indicated it will release new headline measures on the GDP reporting, come the July 30th revisions. One would average the Gross Domestic Product (GDP) and Gross Domestic Income (GDI), two theoretically equivalent measures that rarely are equal, where GDP is the consumption side of the economy and GDI is the offsetting income equivalent. While it would smooth some of the peaks and valleys in headline quarterly growth (always exaggerated in either direction by having the quarterly change being raised to the fourth power, in order to "annualize" it), the new series would not eliminate recessions. The current downturn should be pending in the GDI as well. The first estimate of first-quarter GDI will be published along with the May 29th revision to the first-quarter GDP estimate. We shall see then what the first-quarter combination looks like.

The BEA also will report the GDP net of inventory volatility (already reported as "final sales") and net of the troublesome trade deficit, which acts as a continual reduction to the GDP. Final sales is a legitimate measure, indicating where activity stands net of unstable inventory changes. You cannot ignore the trade deficit.

Suggestions from the private sector have ranged from a second round of seasonal adjustments, in order to "smooth" GDP more accurately (a.k.a. bump-up first-quarter GDP growth), to massively enlarging the hedonic quality adjustments to inflation, which would lower GDP inflation and further exaggerate real GDP growth. *The King Report* has picked up a number of related published articles, and these issues have been reported on by *Zero Hedge*. The *Zero Hedge* link here goes to a just-published article on the BEA, confirming that the BEA will go to using double seasonal-adjustments, as of the July 30th GDP benchmarking. ShadowStats assessment of the GDP-reporting circumstance will follow in a later *Commentary*.

Underlying Reality: GDP Is the Least Meaningful and Most Heavily Massaged of the Major Economic Series, Consistently Overstating Economic Growth. Occasionally, when underlying economic reality gets weak enough, even the heavily-gimmicked GDP reporting will turn negative. That is happening now. Underlying reality remains that the U.S. economy never recovered from the collapse into 2009, and, after a period of protracted stagnation, it is turning down anew.

ShadowStats has chronicled a number of issues with the GDP and offers alternative versions to headline GDP reporting, as detailed in *Chapter 7 and Chapter 8* of the *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, as well as in *Special Commentary No. 692*, and as most recently updated in *Commentary No. 715*.

Today's Missive (May 22nd). The balance of today's *Opening Comments* concentrates on detail from the April CPI and existing-home sales reporting. The *Hyperinflation Watch* contains the updated gold graphs, which usually accompany the CPI *Commentary*, while the *Hyperinflation Outlook Summary* is not revised from *No. 711*.

Separately, along with an updated general overview, the *Week Ahead* section previews April new orders for durable goods, new-home sales and the first revision to first-quarter 2015 GDP.

Consumer Price Index—April 2015—Headline CPI-U Rose by 0.1% for Third Monthly Gain; Annual Inflation Fell by 0.2% (-0.2%) in Fourth Monthly Decline. Negative seasonal adjustments to energy inflation continued to cap monthly CPI reporting, with headline April 2015 CPI-U inflation up by just 0.10% for the month, on a seasonally-adjusted basis. Despite rising oil and gasoline prices in April, both seasonally-adjusted and unadjusted energy-inflation contracted for the month. Further, annual year-to-year CPI-U inflation was down by 0.20% (-0.20%) in April, the fourth negative or flat-to-minus reading in as many months. There is a fair shot, though, that April 2015 will be the near-term bottom in headline annual CPI-U inflation.

April Annual Inflation at Near-Term Trough? Gasoline prices have spiked, so far, in May, perhaps by nine-percent. Further, CPI-U energy-related seasonal-adjustments will be muted in the month ahead. As a result, headline May 2015 CPI-U inflation should see a meaningful jump. An adjusted monthly gain of 0.5% would push year-to-year inflation up to zero for the month; such is a good bet for May, with stronger inflation still ahead.

A sustained increase in energy prices could push headline CPI-U inflation sharply into positive territory. Distorted industry economics and Cartel gimmicks have been altering circumstances in favor of maintaining upside, short-term pricing pressures. Separately, a likely massive decline the U.S. dollar still looms in the not-so-distant future. Such an event would become a dominant factor in dollar-denominated oil prices, spiking oil prices and other inflationary pressures sharply (see the *Hyperinflation Summary Outlook*).

Separately, although the pace of annual CPI-U inflation has been negative since January 2015, year-to-year inflation is not quite as soft as indicated by headline reporting, when considered in the context of traditional CPI reporting and common experience.

CPI-U. Headline, seasonally-adjusted April 2015 CPI-U rose month-to-month by 0.10%, following a headline gain of 0.24% in March. Headline inflation again was constrained by energy-related seasonal factors. On an unadjusted basis, the April CPI-U rose by 0.20%, following an unadjusted month-to-month gain of 0.60% in March. Not seasonally adjusted, April 2015 year-to-year inflation for the CPI-U was down by 0.20% (-0.20%), following an annual contraction of 0.07% (-0.07%) in March 2015.

CPI-W. The April 2015 seasonally-adjusted, headline CPI-W, a narrower series that has greater weighting for gasoline than does the CPI-U, rose by 0.07% (up by 0.20% unadjusted), versus a headline monthly gain of 0.29% (up by 0.71% unadjusted) in March 2015. Unadjusted, April 2015 year-to-year CPI-W inflation fell by 0.82% (-0.82%), versus an annual decline of 0.65% (-0.65%) in March 2015.

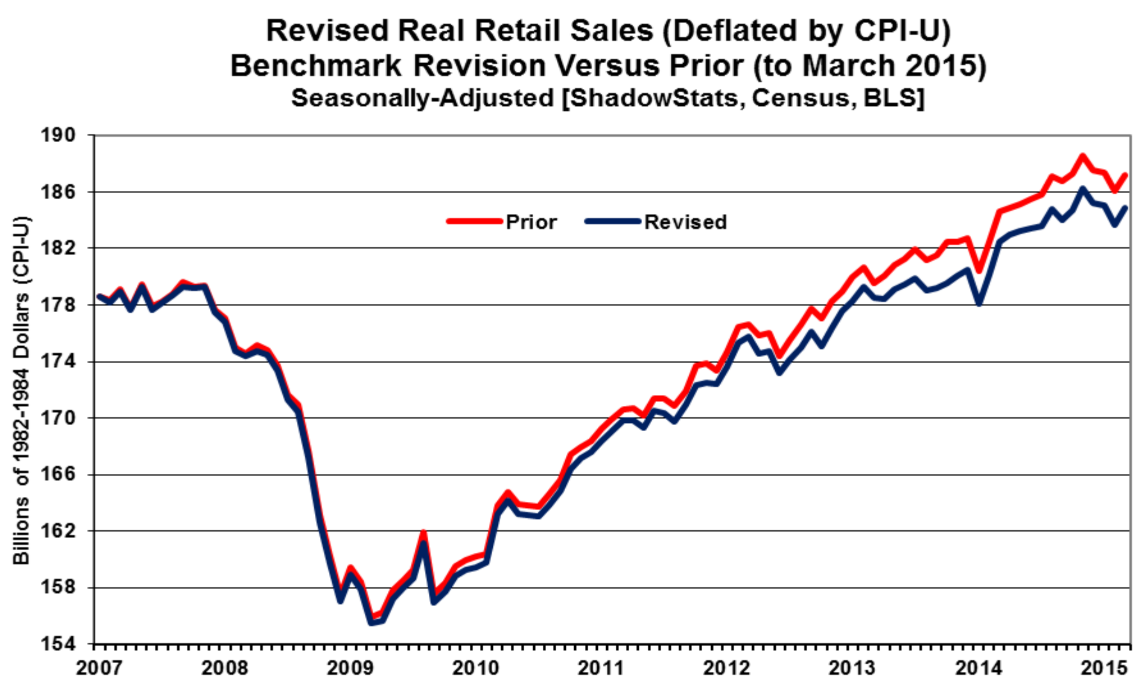
Chained-CPI-U—Revisions Begin to Show the Promise of Excessive Understatement of Inflation. Initial reporting of unadjusted year-to-year inflation for the April 2015 C-CPI-U was an annual contraction of 0.58% (-0.58%), versus a revised annual decline of 0.49% (-0.49%). The March downside revision of 0.08% (-0.08%) to annual inflation, however, was the part of the first once-per-quarter revision to the last twelve-month's worth of data, with the effect of reducing overall annual inflation for those twelve months by 0.08% (-0.08%).

The recently redesigned Chained-CPI-U (C-CPI-U), described in the opening notes of the *CPI Section* of *Commentary No. 699*, with its earlier-finalization, more-frequent revisions and guesstimated data, just had its first, "successful" revision. The C-CPI-U is fully substitution based, where the CPI-U still is not fully so. The CPI-U actually once represented a fixed-basket of goods, where it measured the cost of living of maintaining a constant standard of living. The now fully-substitution-based C-CPI-U allows hamburger to be substituted for steak, if steak gets too expensive (see the *Public Commentary on Inflation Measurement*). Substitution versus fixed-basket weighting generates much-lower headline inflation, but not the type of inflation that an individual normally would consider relevant for personal purposes, such as for salary adjustment or for targeting investment return.

The C-CPI-U revision was "successful," because it reduced annual inflation reporting for the last twelve months by 0.08% (0.08%), as had been hoped for by those in the federal government looking to use artificially-low inflation to help reduce the federal deficit. For example, using the understated C-CPI-U inflation measure—instead of the CPI-W—to make annual cost-of-living-adjustments for Social Security recipients, would exacerbate the understatement of such adjustments. With the Congress and White House purportedly having agreed at one time to use the C-CPI-U gimmick, such gimmicks increasingly appear to be the substitute for the political courage needed to address fully the long-term solvency issues facing the U.S. Government.

Alternate Consumer Inflation Measures. The ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 3.4% in April 2015, versus 3.5% in March 2015. The April 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), was at about 7.4% year-to-year, versus 7.5% in March 2015.

Real Retail Sales—April 2015—Down for the Month, Annual Growth Slowed to Deeping-Recession Levels. The data and graphs here reflect the nominal (before-inflation) estimates of monthly retail sales for April 2015 (see *Commentary No. 718*), in the context of the annual benchmark revisions of April 30th (through March 2015), and as restated into real terms (adjusted for CPI-U inflation).



Comparative benchmark retail sales revisions are plotted through March 2015, in the accompanying graph (see *Commentary No. 716* for more-complete detail). Where revised patterns of retail sales growth shifted lower in 2013 and 2014, and where the headline decline in first-quarter 2015, versus fourth-quarter 2014, was somewhat smaller in revision, any related impact on headline GDP reporting should await the July 30th benchmark-GDP revisions.

Consistent in benchmarked nominal terms, headline monthly retail sales were unchanged (0.00% growth) in April 2015, versus a revised 1.12% gain in March 2015. Year-to-year growth was 0.88% in April 2015, versus a revised 1.73% annual gain in March 2015.

Headline Reporting of Real Retail Sales. Based on headline monthly inflation of 0.10% in the April 2015 CPI-U, and in the context of a 0.24% gain in the March 2015 CPI-U, seasonally-adjusted April real retail sales fell by a headline 0.10% (-0.10%) in the month, versus a revised headline gain of 0.89% in March. For first-quarter 2015, however, real retail sales contracted at a revised annualized quarterly pace of 1.6% (-1.6%).

Real Year-to-Year Growth Slowed Markedly. With seasonally-adjusted headline year-to-year CPI-U inflation down by 0.11% (-0.11%) in April 2015, and down by 0.02% (-0.02%) in March 2015, year-to-year change in April real retail sales slowed to 0.99%, from a revised 1.75% in March. In normal economic times, annual real growth at or below 2.0% would signal an imminent recession. That signal had been given otherwise, recently. The signal has been renewed, and April activity now has indicated a deepening downturn. The graphs of the related headline levels of activity and year-to-growth rates for the real retail sales series are plotted in the *Reporting Detail* section.

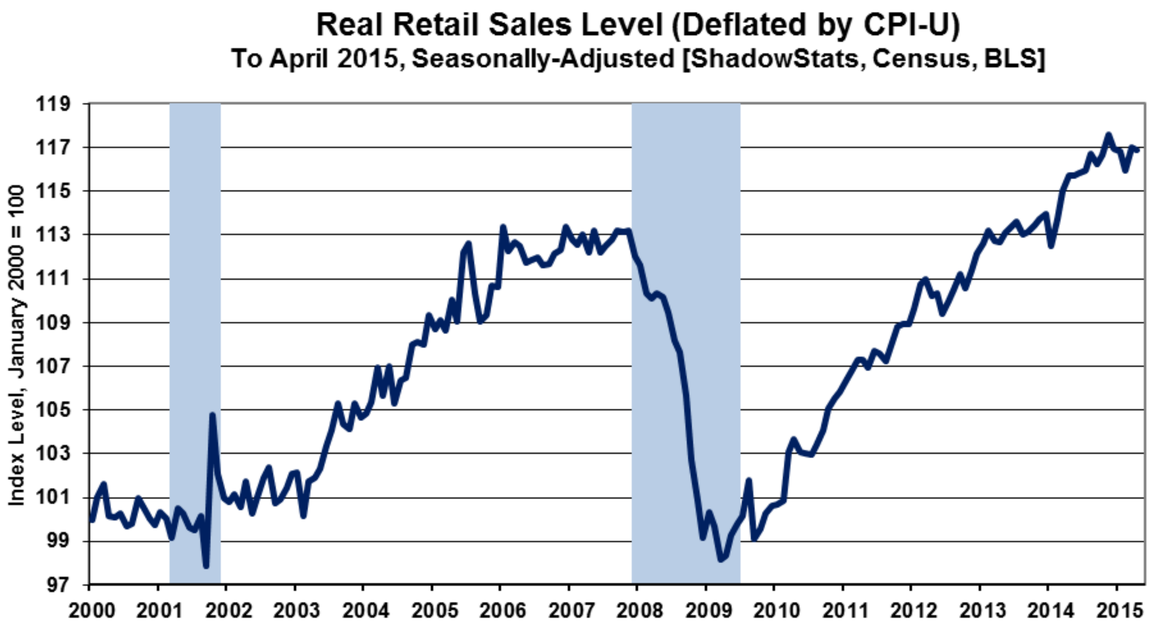
Ongoing Consumer Liquidity Problems. Separately, discussed and detailed in *Commentary No. 718* and updated with *Commentary No. 719*, the underlying issue with retail sales activity remains intense, structural-liquidity woes besetting the consumer. That circumstance—in the last eight-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity.

Without real 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 constrained real retail sales activity and the related, personal-consumption-expenditures category of the GDP, and they have dominated the housing-market collapse and ongoing stagnation in consumer-related real estate and construction activity. Together, those sectors of the economy account for more than 70% of aggregate U.S. GDP activity.

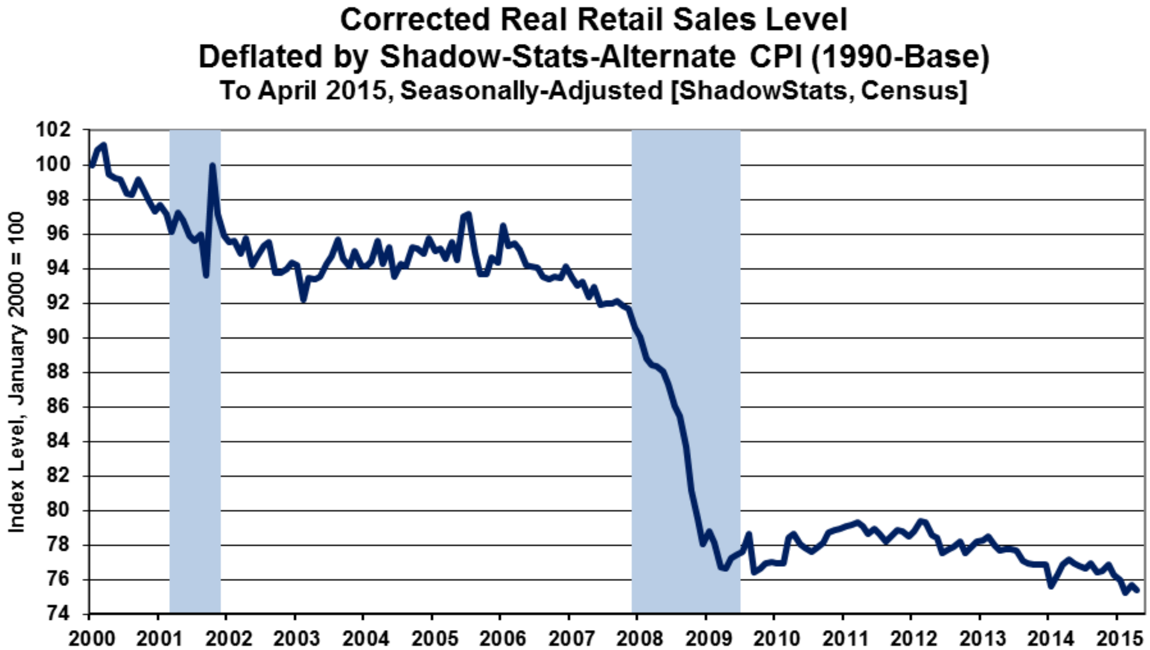
As official, consumer inflation moves higher in the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by the general pattern of real earnings difficulties highlighted in the next section on real average weekly earnings—the retail-trade data should continue to trend meaningfully lower. The circumstance shortly should gain recognition as a formal "new" or double-dip recession.

Corrected Real Retail Sales—April 2015**.** The apparent “recovery” in headline real retail sales generally continued through late-2014, although headline reporting turned down in December 2014, and into the first four months of 2015. Nonetheless, headline real growth in retail sales continues to be overstated heavily, due to the understatement of the rate of inflation used in deflating the retail sales series. As discussed more fully in *Chapter 9* of *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth.

Both graphs following are indexed to January 2000 = 100.0 to maintain consistency in the series of graphs related to corrected inflation-adjustment (including industrial production, new orders for durable goods and GDP). The first graph reflects the official real retail sales series, except that it is indexed, instead of being expressed in dollars. The plotted patterns of activity and rates of growth are exactly same for the official series, whether the series is indexed or expressed in dollars, as can be seen in a comparison with the first plot of real retail sales in the *Reporting Detail* section.



Instead of being deflated by the CPI-U, the "corrected" real retail sales numbers—in the second graph (the next graph following)—use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation. With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation and renewed downturn, consistent with patterns seen in consumer indicators like real median household income, consumer confidence, broad unemployment and in most housing statistics. A topping out in late-2011 and early-2012 reverted to renewed decline in second-quarter 2012 in this series, which had been bottom-bouncing at a low-level plateau of economic activity since the economic collapse from 2006 into 2009. The renewed contraction has trended into and deepened into the first four months of 2015, allowing for the occasional and temporary upside blips.



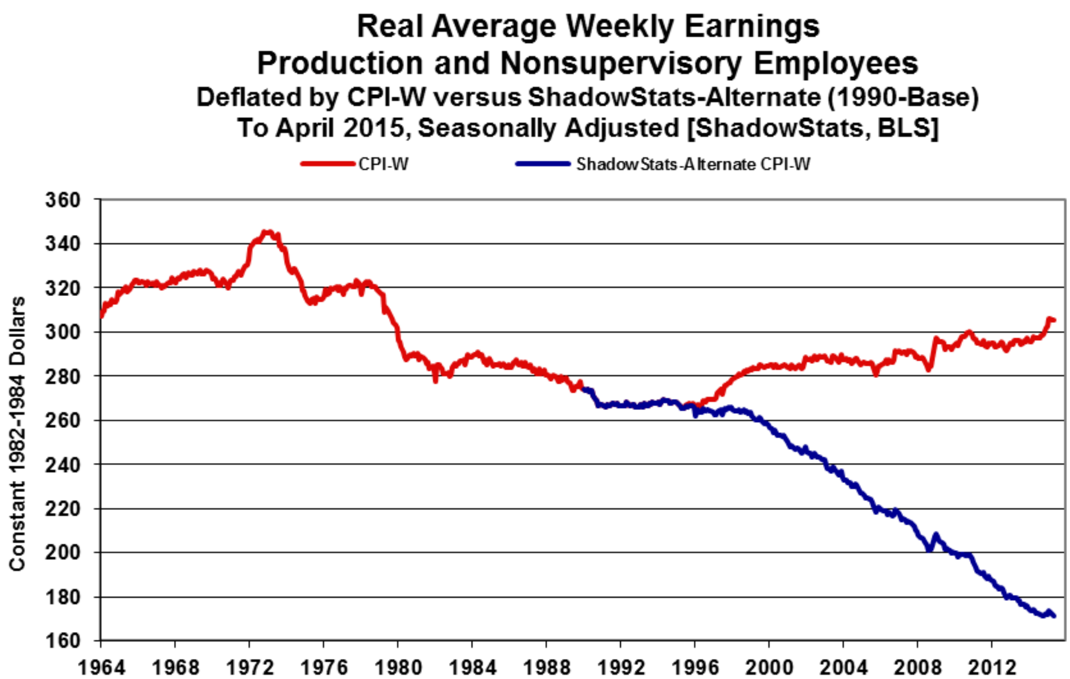
Real Average Weekly Earnings—April 2015—Flat for the Month. Coincident with the headline, seasonally-adjusted monthly gain of 0.1% (0.07% at the second decimal point) in the April 2015 CPI-W, the Bureau of Labor Statistics estimated no growth in real average weekly earnings for the month of April 2015 (deflated by CPI-W). The gain in the April CPI-W inflation followed a headline monthly gain of 0.3% (0.29%) in the March 2015 inflation measure.

For the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings were "unchanged," with growth at 0.0% (up by 0.02% at the second decimal point). That followed a revised real-earnings decline of 0.30% (-0.30%) in March 2015, and an unrevised headline monthly gain of 0.09% in February. The March revision fully reflected the regular surveying instabilities by the BLS as to earnings. Before inflation adjustment, April 2015 earnings rose by 0.1% in the month, March earnings were revised to an unchanged reading, with an unrevised monthly gain of 0.3% in February.

Year-to-year and seasonally-adjusted, April 2015 real average weekly earnings showed a gain of 2.58%, versus a revised gain of 2.45% in March 2015, and an unrevised 3.28% gain in February 2015. Unadjusted, year-to-year changes were 2.34% in April 2015, 2.66% in March 2015, and 3.21% in February 2015. Both the monthly and annual fluctuations in this series are irregular, but current reporting remains well within the normal bounds of volatility, with the exception of the unusual patterns seen in recent inflation numbers that had been depressed by falling gasoline prices.

The accompanying graph shows earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been flat for the last decade. Deflated by the ShadowStats measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See *Public Commentary on Inflation Measurement* for further detail.

That said, the recent sharp decline in headline monthly inflation generated a temporary, but visible spike in the real-earnings levels of December and January, now pulling back with the February, March and April detail.



Existing-Home Sales—April 2015—Monthly Decline with Slowing Annual Growth. Moving out of step with the wildly unstable 20.2% headline monthly jump in April 2015 housing starts (see prior *Commentary No. 720)*, headline existing-home sales fell by 3.3% (-3.3%) in April, with annual growth slowing to 6.1% from 10.9%. The monthly contraction disappointed market expectations for a headline monthly gain of 0.6% [Bloomberg]. The revised first-quarter 2015 annualized quarterly contraction in existing sales of 6.7% (-6.7%) changed only minimally from the initial estimate of an annualized quarterly decline of 7.2% (-7.2%).

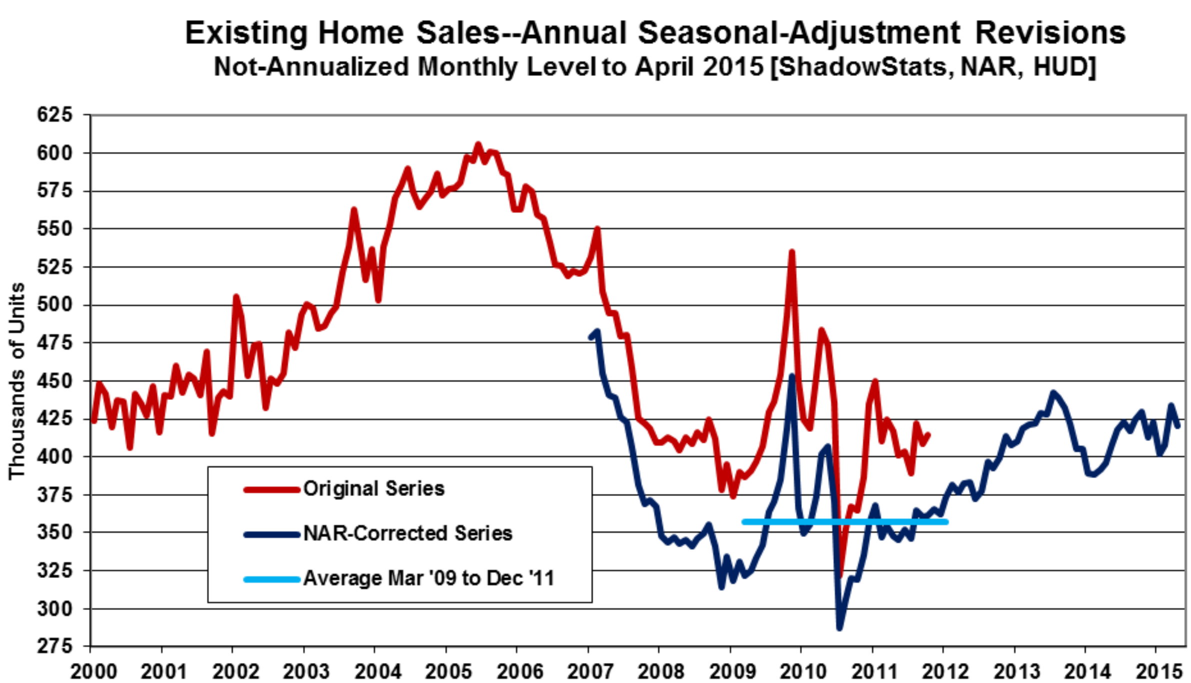
The April 2015 headline annualized sales pace of 5,040,000 (a monthly pace of 420,000) remained below the June 2005 pre-recession peak in sales by a simple 31% (-31%). Despite the April headline monthly surge, housing starts remained down by a simple 50% (-50%) versus the January 2006 pre-recession peak.

Headline Detail for April Existing-Home Sales. Existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted headline monthly decline of 3.3% (-3.3%), following a revised headline gain of 6.5% in March. The headline April month-to-month decline was 2.9% (-2.9%), net of prior-period revisions. On a year-to-year basis, April 2015 sales growth slowed to 6.1%, versus a revised annual gain of 10.9% in March 2015.

The headline April sales data was well within the regular scope of reporting for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that recently had reflected a renewed downturn, as seen in the accompanying graph. The quality of data for this series, however, remains highly questionable.

Portion of Sales in Foreclosure Held Steady. The NAR estimated that the portion of April 2015 sales in "distress" held at 10% (7% foreclosures, 3% short sales), the same level and mix as seen in March 2015, but down from distressed sales of 15% (10% foreclosures, 5% short sales) in April 2014. Reflecting continued lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales in April 2015 represented 24% of total activity, the same portion of sales as seen in March 2015, but down from 32% in April 2014.

Bleak Outlook Continues for Home Sales, Based on Impaired Consumer Liquidity Conditions. Discussed earlier in the *Real Retail Sales* section (see also *Commentary No. 718* and *Commentary No. 719*), there has been no improvement in underlying consumer liquidity conditions. Correspondingly, with no fundamental growth in liquidity to fuel increasing consumer activity, there has not been a basis here for a recovery in the housing market, past or present, and there is no basis for expecting a recovery in the housing market in the near future.



Existing-Home Sales Graph. The preceding, regular graph of monthly existing-home sales activity, also will accompany the updated graph on new-home sales and comparative housing starts data, in the next *Commentary No. 722* of May 26th.

[The* Reporting Detail *section includes further information on the April CPI (related numbers on precious metals), real retail sales and earnings, and existing-home sales.]

HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY

General Outlook Is Unchanged; Intensifying Economic Weakness Continues 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. 718* and *Commentary No. 719*). 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.

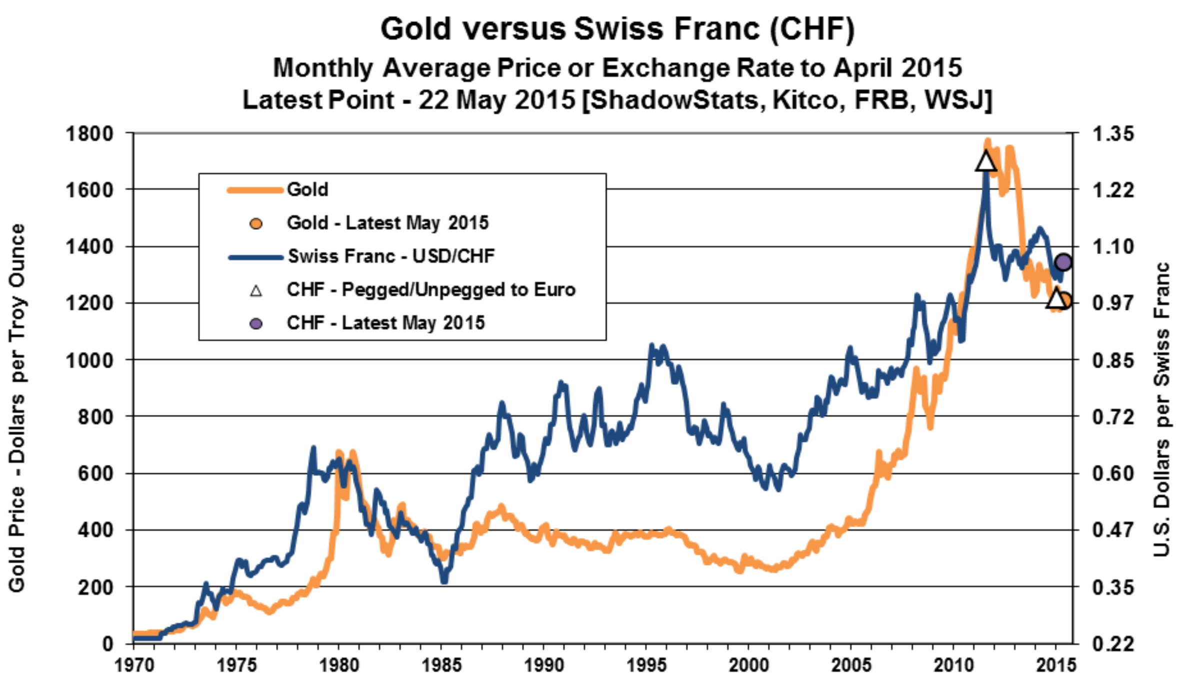
When the selling pressure breaks massively against the U.S. currency, the renewed and intensifying weakness in the dollar will place upside pressure on oil prices and other commodities, boosting domestic inflation and inflation fears. Domestic willingness to hold U.S. dollars will tend to move in parallel 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.

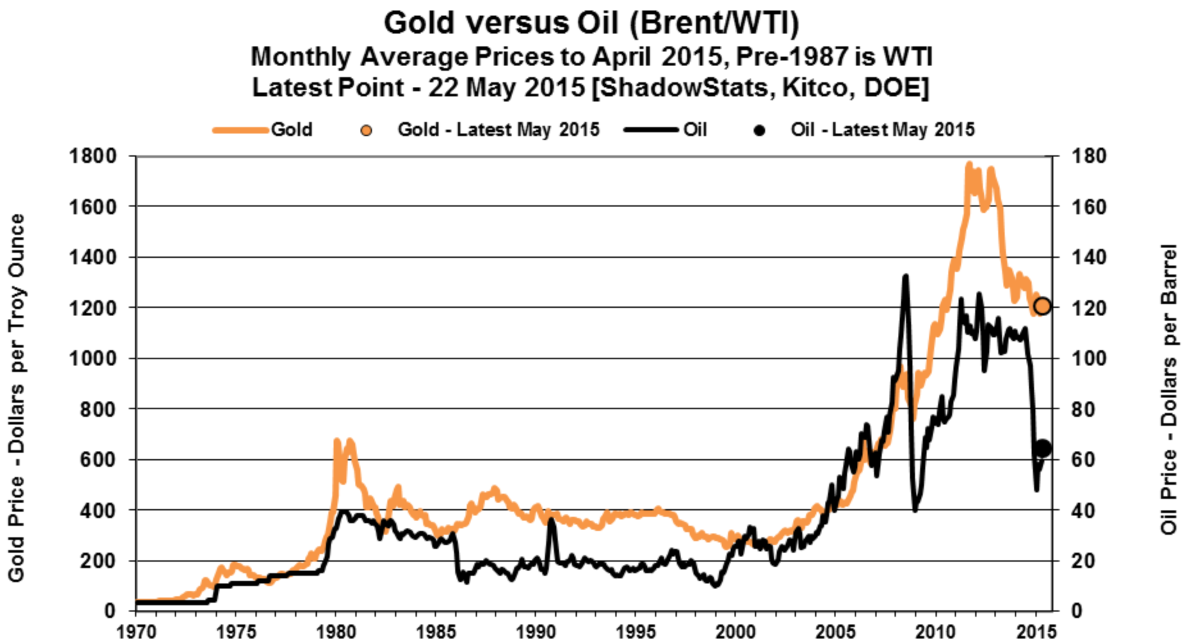
Both the renewed dollar weakness and the resulting inflation spike should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises. Investors need to preserve the purchasing power and liquidity 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.

Monthly Gold Graphs and Related Comments. The three traditional gold graphs that usually accompany the CPI *Commentaries* follow. The plots are updated through today, May 22nd, reflecting late-afternoon New York prices for the "Latest May" points in the graphs. These basic graphs also update the *Nominal Markets* section of *No. 692*. When the developing sell-off in the U.S. dollar begins to gain broadly-based momentum, offsetting sharp rallies should be seen on a coincident basis for gold and silver prices, as well as for oil prices.

Dollar Strength Still Distorts the Financial Markets. Discussed extensively in *No. 692*, continuing strength in the exchange-rate value of the U.S. dollar against other major Western currencies had been and tentatively still remains the primary distorting element in various financial markets. In the last several months, however, U.S. dollar strength likely hit its near-term peak, pulling back as false strength in headline domestic economic activity began to evaporate, and as the Fed began to waffle on its purportedly pending, near-term interest rate hikes. That story continues to evolve unsteadily, but market recognition of the onset of a "new" recession should be in place by the first-estimate of second-quarter 2015 GDP, along with likely, heavily-negative benchmark revisions to the GDP series, on July 30th.

Separately, there have been stories of intervention aimed at providing some dollar support. At the same time, oil prices are off bottom, fluctuating, but generally turning higher. Nonetheless, mixed pressures on the precious metals have kept gold prices relatively stagnant, on balance, with silver prices somewhat stronger. The accompanying graphs reflect those developments. Physical gold and silver remain the primary hedges against all the financial and inflationary crises ahead.




Gold versus Oil (Brent/WTI)
Monthly Average Prices to April 2015, Pre-1987 is WTI
Latest Point - 22 May 2015 [ShadowStats, Kitco, DOE]
Gold
Gold - Latest May 2015
Oil
Oil - Latest May 2015
Gold Price - Dollars per Troy Ounce
Oil Price - Dollars per Barrel
1800
1600
1400
1200
1000
800
600
400
200
0
180
160
140
120
100
80
60
40
20
0
1970
1975
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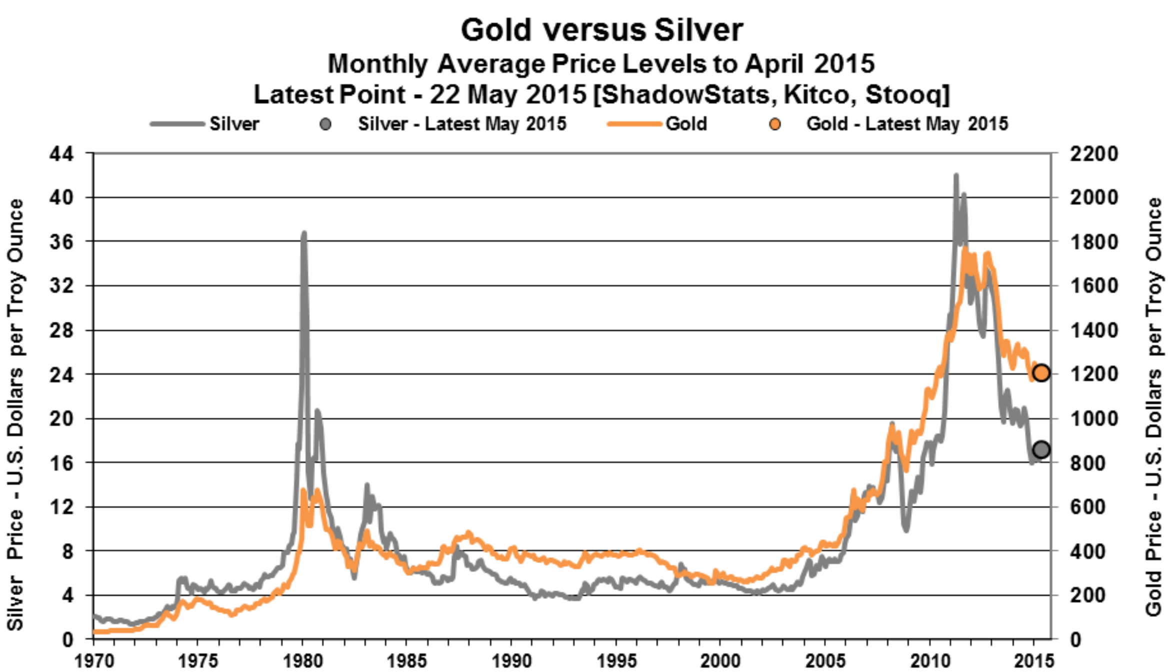
1995
2000
2005
2010
2015


Gold versus Silver
Monthly Average Price Levels to April 2015
Latest Point - 22 May 2015 [ShadowStats, Kitco, Stooq]
Silver
Silver - Latest May 2015
Gold
Gold - Latest May 2015
Silver Price - U.S. Dollars per Troy Ounce
Gold Price - U.S. Dollars per Troy Ounce
44
40
36
32
28
24
20
16
12
8
4
0
2200
2000
1800
1600
1400
1200
1000
800
600
400
200
0
1970
1975
1980
1985
1990
1995
2000
2005
2010
2015

REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (April 2015)

Headline April CPI-U Rose by 0.1% for Third Monthly Gain; Annual Inflation Fell by 0.2% (-0.2%) in Fourth Monthly Decline. Negative seasonal adjustments to energy inflation have continued to cap headline monthly gains in recent CPI reporting, with the headline April 2015 CPI-U inflation up by just 0.10% on a seasonally-adjusted basis. Despite rising oil and gasoline prices in April, both seasonally-adjusted and unadjusted CPI-U energy-inflation contracted for the month. Further, annual year-to-year CPI-U inflation was down by 0.20% (-0.20%). There is a fair shot, though, for April 2015 being the near-term bottom in headline annual CPI-U inflation.

Gasoline prices have spiked, so far, in May, and energy-related CPI-U seasonal-adjustments will be muted come May inflation reporting. Accordingly, headline May 2015 CPI-U inflation should have a meaningful jump. An adjusted monthly CPI-U gain of 0.5% would push year-to-year inflation up to zero for the month. Such is a good bet for May, with stronger inflation ahead.

A sustained increase in energy prices could push headline CPI-U inflation sharply into positive territory. Distorted industry economics and Cartel gimmicks have been altering circumstances in favor of maintaining upside, short-term pricing pressures. Separately, a likely massive decline the U.S. dollar still looms in the not-so-distant future. Such an event would become a dominant factor in dollar-denominated oil prices, spiking oil prices and other inflationary pressures sharply (see the *Hyperinflation Summary Outlook*).

Separately, although the pace of annual CPI-U inflation has been negative since January 2015, year-to-year inflation is not quite as soft as indicated by headline reporting, when considered in the context of traditional CPI reporting and common experience.

C-CPI-U Revisions Begin to Show the Promise of Excessive Understatement of Inflation. The recently redesigned Chained-CPI-U (C-CPI-U), with its earlier-finalization, more-frequent revisions and guesstimated data, just had its first, "successful" revision. The C-CPI-U is fully substitution based, where the CPI-U still is not fully so. The CPI-U actually once represented a fixed-basket of goods, where it measured the cost of living of maintaining a constant standard of living. In the most-extreme case of substitution-weighting, the now fully-substitution-based C-CPI-U allows for hamburger to be substituted for steak, if steak gets too expensive (see the *Public Commentary on Inflation Measurement*). Substitution versus fixed-basket weighting generates much-lower headline inflation, but not the type of inflation that an individual normally considers relevant for personal purposes, such as for salary adjustment or for targeting investment return.

The C-CPI-U revision was "successful," because it reduced annual inflation reporting for the last twelve months by 0.08% (0.08%), as had been hoped for by those in the federal government looking to use artificially-low inflation to help reduce the federal deficit. Using the understated C-CPI-U inflation measure—instead of the CPI-W—to make annual cost-of-living-adjustments for Social Security recipients, for example, would exacerbate the understatement of such adjustments. With the Congress and White House purportedly having agreed at one time to use the C-CPI-U gimmick, such gimmicks increasingly appear to be the substitute for the political courage needed to address fully the long-term solvency issues facing the U.S. Government.

[The following two paragraphs are not changed from the prior Commentary.*]*

Government Inflation Numbers Standardly Are Well Shy of Reality. Inflation as viewed from the standpoint of common experience—generally viewed by the public in terms of personal income or investment use—continues to run well above any of the government's rigged price measures. CPI reporting methodologies in recent decades deliberately were changed so as to understate the government's reporting of consumer inflation, and that inflation-understatement fraud is being expanded. The pace of inflation has been understated, through politically-orchestrated efforts to adjust for economic substitutions in the CPI surveying (*i.e.*, hamburger being purchased in lieu of more-expensive steak), and by not reflecting actual out-of-pocket costs in its surveying, with generally downside hedonic-quality adjustments made to prices, all as detailed in the *Public Commentary on Inflation Measurement*, which will be updated in the near future for changing methodologies and continued exposition on the ShadowStats approaches for adjusting to same.

Contrary to its traditional structure, the CPI no longer reflects the cost of living of maintaining a constant standard of living. As a result, those who set or target their income or investment growth to the government's faux headline CPI number simply cannot stay even with inflation, unless they massively exceed their targets. Allowing for the earlier CPI methodologies, actual year-to-year consumer inflation is not close to being flat, zero or minus (see the ShadowStats Alternate Inflation Measures).

Longer-Range Inflation Outlook. Going forward, as discussed generally in *No. 692* and *2014 Hyperinflation Report—The End Game Begins – First Installment Revised*, high risk of an intensifying massive flight from the U.S. dollar in the months ahead threatens to generate rapid, upside energy and global-commodity inflation, which would drive headline U.S. consumer inflation much higher. Nascent dollar problems appear to be surfacing and could accelerate at any time, with little further warning. Intensifying financial-market turmoil surrounding deteriorating global and domestic political, fiscal and monetary instabilities, and rapidly worsening economic activity, all should pummel the U.S. dollar, as discussed in the *Hyperinflation Summary Outlook*. Ongoing economic and financial-system-liquidity crises still threaten systemic instabilities that, as with their 2008 Panic precursors, cannot be contained without further, official actions that have serious inflation consequences.

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Notes on Different Measures of the Consumer Price Index

The Consumer Price Index (CPI) is the broadest inflation measure published by the U.S. Government, through the Bureau of Labor Statistics (BLS), Department of Labor:

*The **CPI-U (Consumer Price Index for All Urban Consumers)** is the monthly headline inflation number (seasonally adjusted) and is the broadest in its coverage, representing the buying patterns of all urban consumers. Its standard measure is not seasonally-adjusted, and it never is revised on that basis except for outright errors.*

*The **CPI-W (CPI for Urban Wage Earners and Clerical Workers**) covers the more-narrow universe of urban wage earners and clerical workers and is used in determining cost of living adjustments in government programs such as Social Security. Otherwise, its background is the same as the CPI-U.*

*The **C-CPI-U (Chain-Weighted CPI-U)** is an experimental measure, where the weighting of components is fully substitution based. It generally shows lower annual inflation rate than the CPI-U and CPI-W. The latter two measures once had fixed weightings—so as to measure the cost of living of maintaining a constant standard of living—but now are quasi-substitution-based. Since it is fully substitution based, the series tends to reflect lower inflation than the other CPI measures. Accordingly, the C-CPI-U is the "new inflation" measure being proffered by Congress and the White House as a tool for reducing Social Security cost-of-living adjustments by stealth. Moving to accommodate the Congress, the BLS introduced changes to the C-CPI-U estimation process with the February 26, 2015 reporting of January 2015 inflation, aimed at finalizing the C-CPI-U estimates on a more-timely basis, and enhancing its ability to produce lower headline inflation than the traditional CPI-U.*

*The **ShadowStats Alternative CPI-U Measures** are attempts at adjusting reported CPI-U inflation for the impact of methodological change of recent decades designed to move the concept of the CPI away from being a measure of the cost of living needed to maintain a constant standard of living. There are two measures, where the first is based on reporting methodologies in place as of 1980, and the second is based on reporting methodologies in place as of 1990.*

CPI-U. The Bureau of Labor Statistics (BLS) reported this morning, May 22nd, that headline, seasonally-adjusted April 2015 CPI-U rose month-to-month by 0.1%, up by 0.10% at the second decimal point, following a headline March gain of 0.2%, up by 0.24% at the second decimal point. Adjusted headline inflation again was constrained in April, by seasonal factors. On a not-seasonally-adjusted basis, the April 2015 CPI-U rose by 0.20%, following an unadjusted headline month-to-month gain of 0.60% in the March.

As usual, those skewed seasonals were tied to energy inflation, as is common in the first half of a year. Where the negative seasonal-adjustments for energy begin to disappear with next month's May reporting, and where gasoline prices have jumped sharply—perhaps by 9%—in May 2015, some pick up in headline CPI-U inflation is likely next month. As with the April PPI reporting, however, despite higher oil and gasoline prices on an unadjusted basis in April, neither the adjusted nor unadjusted headline April CPI-U energy inflation measure was reported in positive territory.

Major CPI-U Groups. Encompassed by the seasonally-adjusted gain of 0.10% in the April 2015 CPI-U [up by an unadjusted 0.20%], aggregate April energy inflation fell for the month by a seasonally-adjusted 1.25% (-1.25%) [down by an unadjusted 0.50% (-0.50%)]. In the other major CPI sectors, adjusted April food inflation was unchanged at 0.00% [up by 0.02% unadjusted], while adjusted "core" inflation rose by

0.26% [up by 0.30% unadjusted] for the month. Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 1.81% in April 2015, versus 1.75% in March 2015.

Year-to-Year CPI-U. Not seasonally adjusted, April 2015 year-to-year inflation for the CPI-U was down by a headline 0.2% (-0.2%), by 0.20% (-0.20%) at the second decimal point, following a March 2015 annual contraction of 0.1% (-0.1%), down by 0.07% (-0.07%) at the second decimal point.

Year-to-year, CPI-U inflation would increase or decrease in next month's May 2015 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.30% monthly inflation gain reported for May 2014. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for May 2015, the difference in May's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the April 2015 negative annual inflation rate of 0.20% (-0.20%). Headline monthly inflation approaching roughly 0.5% would be needed in May 2015 in order to push the headline annual CPI-U inflation rate into positive territory at that time. The shifting energy picture may be enough to end the string of small, year-to-year headline contractions in the CPI-U.

CPI-W. The April 2015 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose by 0.07% (up by 0.20% unadjusted), versus a headline month-to-month gain of 0.29% (up by 0.71% unadjusted) in March 2015.

Year-to-Year CPI-W. Unadjusted, April 2015 year-to-year CPI-W inflation fell by 0.82% (-0.82%), versus a decline of 0.65% (-0.65%) in March 2015.

Chained-CPI-U. Initial reporting of unadjusted year-to-year inflation for the April 2015 C-CPI-U was an annual contraction of 0.58% (-0.58%), versus a revised annual decline of 0.49% (-0.49%) [previously down by 0.41% (-0.41%)] in March 2015. The March downside revision of 0.08% (-0.08%) to annual inflation, however, was part of a once-per-quarter revision to the last twelve-month's worth of data, with the effect of reducing overall annual inflation for those twelve months by 0.08% (-0.08%).

The revisions were part of the revamped C-CPI-U reporting, designed by the BLS to intensify the downside reporting pressures on, and to minimize the headline inflation reporting from, the C-CPI-U, which is the planned replacement for the CPI-U and CPI-W cost-of-living-adjustment (COLA) measures used by the federal government. Meeting with early success, this deliberate plan to understate the inflation rate used to adjust payments for such programs as Social Security, for example, just lowered headline annual inflation by 0.8% (-0.8%) from what it would have been otherwise.

See the opening notes in the *CPI Section* of *Commentary No. 699* as to the recent changes in C-CPI-U reporting.

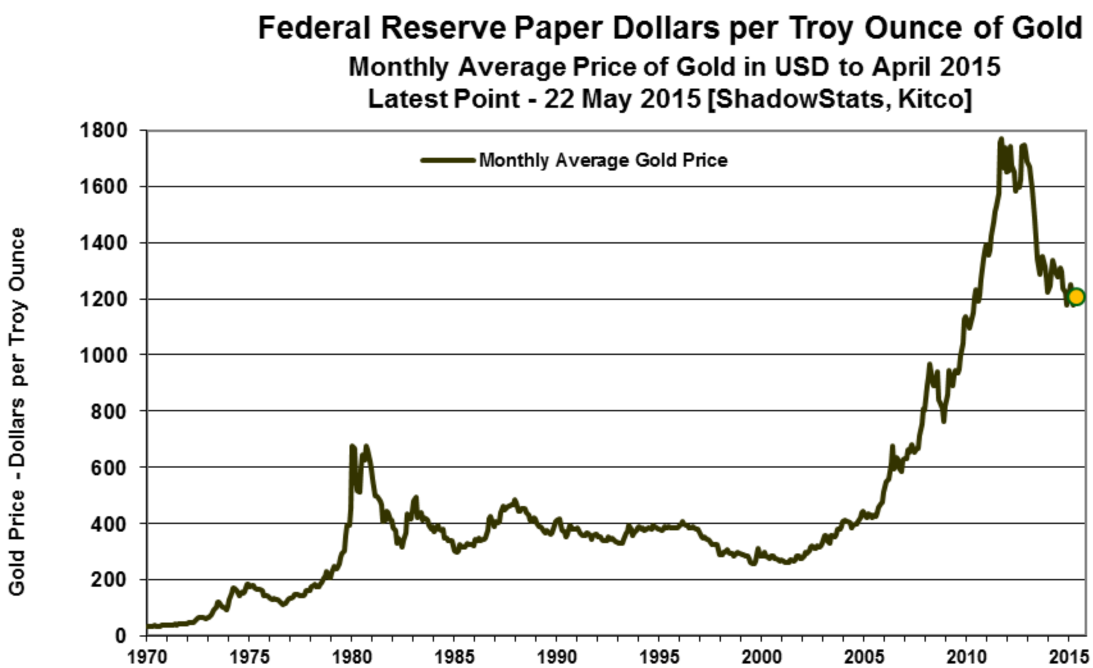
Alternate Consumer Inflation Measures. Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 3.4% in April 2015, versus 3.5% in March 2015.

The April 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 7.4% (7.38% for those using a second decimal point) year-to-year, versus 7.5% in March 2015.

[The balance of the text in this Alternate Consumer Inflation Measures *sub-section is unchanged from the prior CPI* Commentary.*]*

Note: The ShadowStats-Alternate Consumer Inflation Measure largely has been reverse-engineered from the BLS's CPI-U-RS series, which provides an official estimate of historical inflation, assuming that all current methodologies were in place going back in time. The ShadowStats estimates effectively are adjusted on an additive basis for the cumulative impact on the annual inflation rate of various methodological changes made by the BLS (the series is not recalculated).

Over the decades, the BLS has altered the meaning of the CPI from being a measure of the cost of living needed to maintain a constant standard of living, to something that neither reflects the constant-standard-of-living concept nor measures adequately what most consumers view as out-of-pocket expenditures. Roughly five percentage points of the additive ShadowStats adjustment reflect the BLS's formal estimate of the annual impact of methodological changes; roughly two percentage points reflect changes by the BLS, where ShadowStats has estimated the impact not otherwise published by the BLS. (See Public Commentary on Inflation Measurement *for further details.)*



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

CPI-U: GOLD at $2,585 per Troy Ounce, SILVER at $150 per Troy Ounce
ShadowStats: GOLD at $11,804 per Troy Ounce, SILVER at $687 per Troy Ounce

Despite the September 5, 2011 historic-high gold price of $1,895.00 per troy ounce (London afternoon fix), and despite the multi-decade-high silver price of $48.70 per troy ounce (London fix of April 28, 2011), gold and silver prices have yet to re-hit their 1980 historic levels, adjusted for inflation. The earlier all-time high of $850.00 (London afternoon fix, per Kitco.com) for gold on January 21, 1980 would be $2,585 per troy ounce, based on April 2015 CPI-U-adjusted dollars, and $11,804 per troy ounce, based on April 2015 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (all series not seasonally adjusted).

In like manner, the all-time high nominal price for silver in January 1980 of $49.45 per troy ounce (London afternoon fix, per silverinstitute.org)—although approached in 2011—still has not been hit since 1980, including in terms of inflation-adjusted dollars. Based on April 2015 CPI-U inflation, the 1980 silver-price peak would be $150 per troy ounce and would be $687 per troy ounce in terms of April 2015 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

As shown in Table 1, on page 31 of *2014 Hyperinflation Report—The End Game Begins – First Installment Revised*, over the decades, the increases in gold and silver prices have compensated for more than the loss of the purchasing power of the U.S. dollar as reflected by CPI inflation. They also effectively have come close to fully compensating for the loss of purchasing power of the dollar based on the ShadowStats-Alternate Consumer Price Measure (1980-Methodologies Base).

Real (Inflation-Adjusted) Retail Sales—April 2015—Down for the Month, Annual Growth Slowed to Deeping-Recession Levels. The data and graphs here, and in the *Opening Comments* section, reflect nominal (before-inflation) estimates of the headline monthly retail sales through April 2015 (see *Commentary No. 718*), in the context of the annual benchmark revisions of April 30th, and in real terms (adjusted for CPI-U inflation). Graphed in the *Opening Comments* is a plot of the benchmark revisions to retail sales versus previous reporting. *Commentary No. 716* provides more-complete detail.

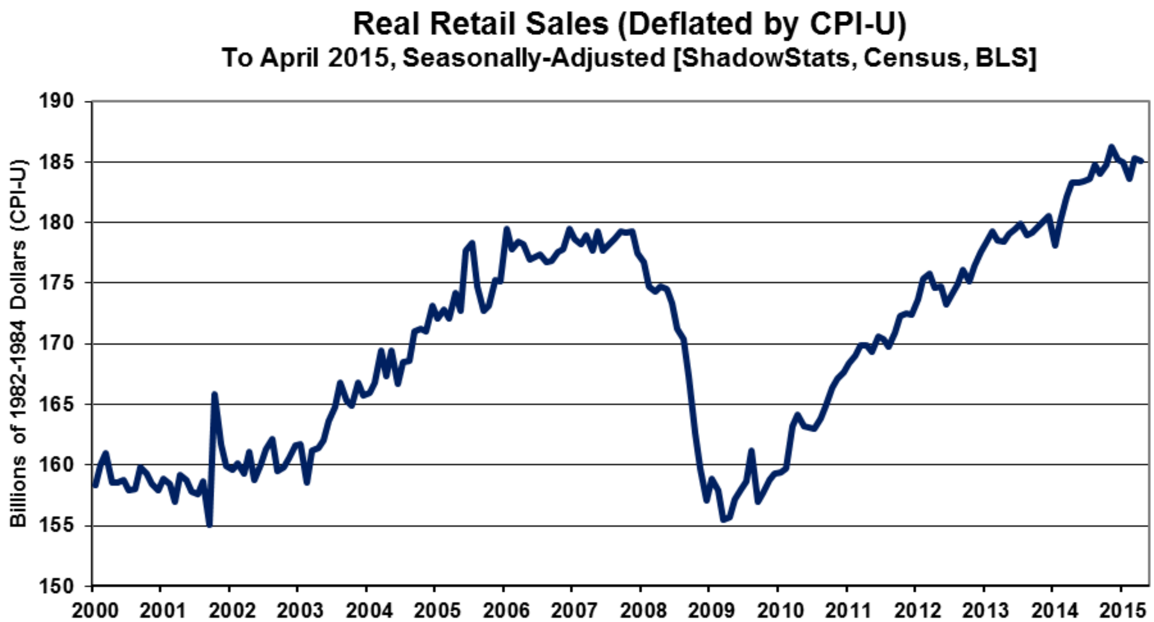
Consistent in benchmarked nominal terms, before adjustment for inflation, headline monthly retail sales were unchanged (0.00% growth) in April 2015, versus a revised 1.12% [previously benchmarked 0.89%, pre-benchmark 0.86%] gain in March 2015. Year-to-year growth was 0.88% in April 2015, versus a revised 1.73% [previously benchmarked 1.32%, pre-benchmark 1.37%] annual gain in March 2015.

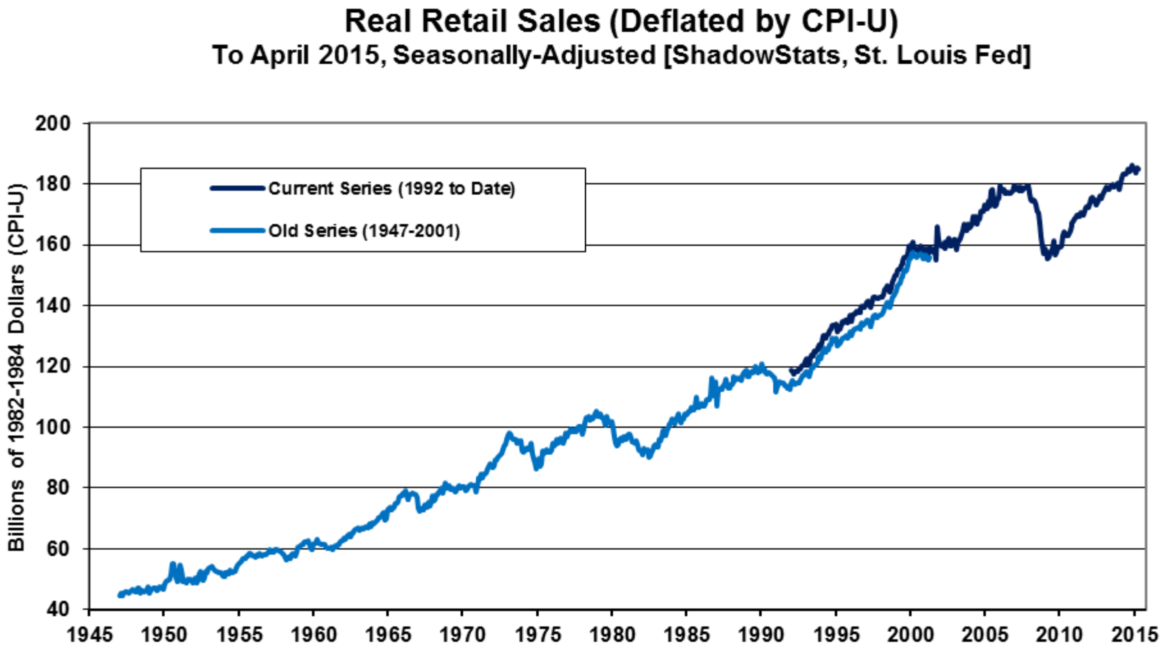
Headline Reporting of Real Retail Sales. Based on today's (May 22nd) reporting of headline monthly inflation of 0.10% in the April 2015 CPI-U, and in the context of a 0.24% gain in the March 2015 CPI-U, April real retail sales fell by a headline 0.10% (-0.10%), versus a revised headline gain of 0.89% [previously up by a benchmarked at 0.65%, up pre-benchmark by 0.63%] in March. First-quarter 2015 real retail sales contracted at a revised annualized quarterly pace of 1.6% (-1.6%) [previously down at an annualized benchmarked pace of 1.8% (-1.8%), down pre-benchmark at an annualized 2.0% (-2.0%)].

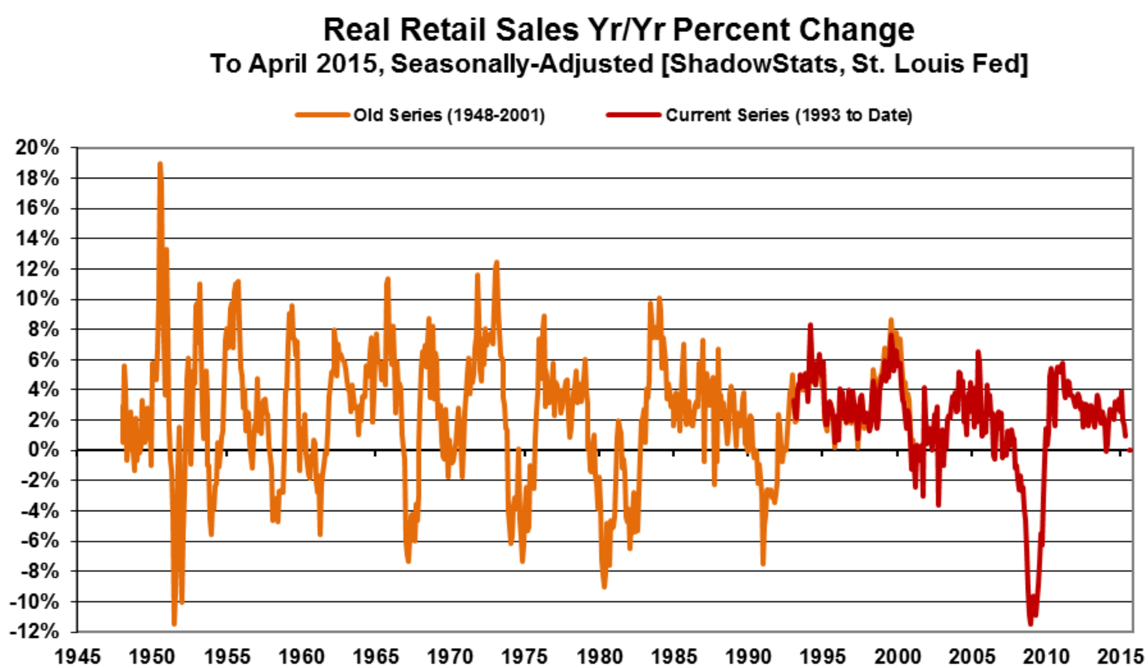
Real Year-to-Year Growth Slowed Markedly. With seasonally-adjusted headline year-to-year CPI-U inflation down by 0.11% (-0.11%) in April 2015, and down by 0.02% (-0.02%) in March 2015, year-to-year change in April real retail sales slowed to 0.99%, from a revised 1.75% in March [previously up by a benchmarked at 1.34%, up pre-benchmark by 1.40%]. In normal economic times, annual real growth at or below 2.0% would signal an imminent recession. That signal had been given otherwise, recently. The signal has been renewed, and April activity now has indicated a deepening downturn. The second and fourth graphs following show the latest headline annual real growth in retail sales.

Separately, discussed and detailed in *Commentary No. 718* and updated in *Commentary No. 719*, the underlying issue with current retail sales activity remains intense, structural-liquidity woes besetting the consumer. That circumstance—in the last eight-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity.

As official consumer inflation moves higher in the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by the general pattern of real earnings difficulties highlighted in the next section—these data should continue to trend meaningfully lower, in what shortly should gain recognition as a formal "new" or double-dip recession.







Real Retail Sales Graphs. The first of the four graphs preceding shows the level of real retail sales activity (deflated by the CPI-U) since 2000; the second graph shows year-to-year percent change for the same period. The level of headline monthly activity turned lower for the third month, in February 2015, showing signs of faltering sales. March showed some rebound, but the quarter remained in contraction, with continued softness reported in April. Year-to-year activity, which had plunged to a near-standstill in January and February 2014, had bounced back irregularly, hitting its recent high level in January 2015, spiked by negative inflation at the time, but it fell back below two-percent in February and March 2015, and below one-percent in April 2015. The third and fourth graphs show the level of, and annual growth in, real retail sales (and its predecessor series) in full post-World War II detail.

Irrespective of near-term reporting weakness and quarterly contractions, the apparent previous "recovery" in the real retail sales series (and other series such as industrial production and GDP) up through year-end 2014 was due to the understatement of the rate of inflation used in deflating retail sales and other series. As discussed more fully in *Chapter 9* of *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth.

As shown in the latest "corrected" real retail sales graph, in the *Opening Comments* section, with the deflation rates corrected for the understated inflation reporting of the CPI-U, the recent pattern of real sales activity has turned increasingly negative. The corrected graph shows that the post-2009 period of protracted stagnation ended, and a period of renewed and ongoing contraction began in second-quarter 2012. The corrected real retail sales numbers use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation instead of the CPI-U.

Real (Inflation-Adjusted) Average Weekly Earnings—April 2015—Flat for the Month. Coincident with today's (May 22nd) reporting of a headline, seasonally-adjusted monthly gain of 0.1% (0.07% at the second decimal point) in the April 2015 CPI-W, the BLS also published real average weekly earnings for the month of April (deflated by CPI-W). The gain in the April CPI-W followed a headline monthly gain of 0.3% (0.29%) in the March 2015 inflation measure.

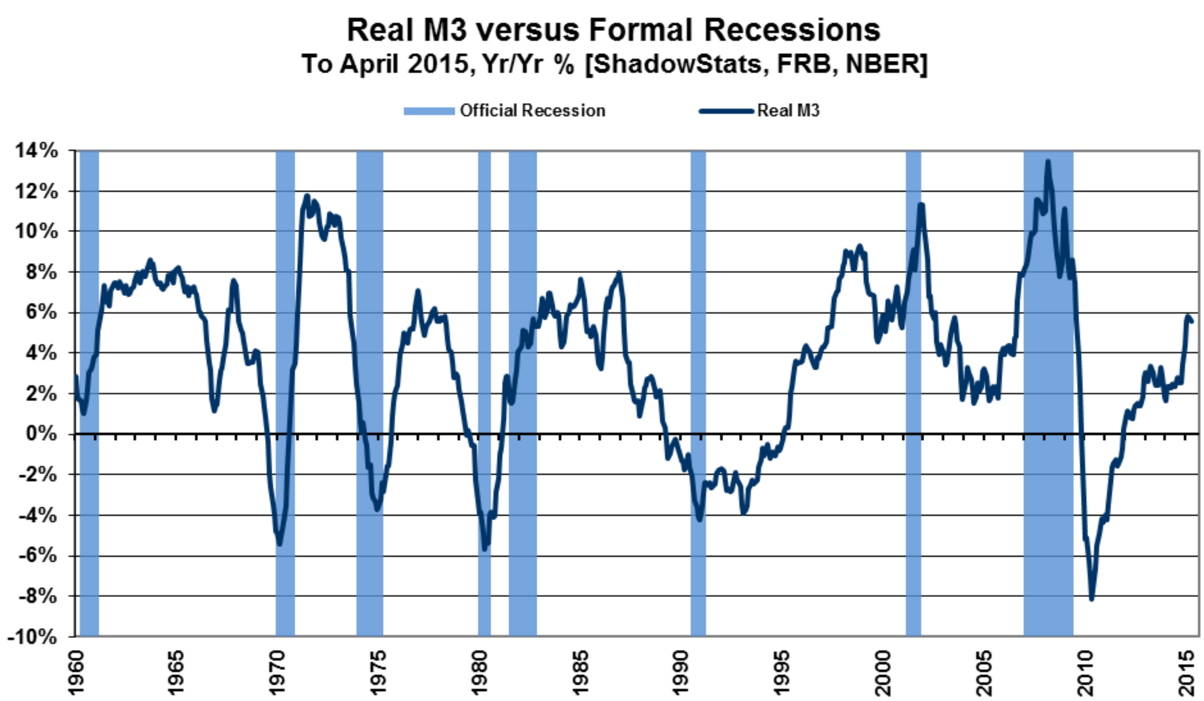
In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings were "unchanged," with growth at 0.0% (up by 0.02% at the second decimal point). That followed a revised decline of 0.30% (-0.30%) [previously down by 0.40% (-0.40%)] in March 2015, and an unrevised headline monthly gain of 0.09% [previously up by 0.09%, initially down by 0.26% (-0.26%)] in February. The March revision fully reflected regular surveying instabilities by the BLS as to earnings. Before inflation adjustment, April earnings rose by 0.1% in the month, March earnings were revised to unchanged [previously down by 0.1% (-0.1%) for the month], with an unrevised monthly gain of 0.3% in February.

Year-to-year and seasonally-adjusted, April 2015 real average weekly earnings showed a gain of 2.58%, versus a revised gain of 2.45% (previously 2.35%) in March 2015, and an unrevised 3.28% (previously 3.28%, initially 3.18%) gain in February 2015. Unadjusted, year-to-year changes were 2.34% in April 2015, 2.66% in March 2015, and 3.21% in February 2015. Both the monthly and annual fluctuations in this series are irregular, but current reporting remains well within the normal bounds of volatility, with the exception of the unusual patterns seen in recent inflation numbers that had been depressed by falling gasoline prices.

The regular graph of this series is shown in the *Opening Comments* section, plotting earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been flat for the last decade. Deflated by the ShadowStats measure, real earnings have been in fairly-regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See *Public Commentary on Inflation Measurement* for further detail.

That said, the recent sharp decline in headline monthly inflation generated a temporary, but visible spike in the real-earnings levels of December and January, now pulling back with the February, March and April detail.

Real (Inflation-Adjusted) Money Supply M3—April 2015. The signal for a double-dip, multiple-dip or simply protracted, ongoing recession, based on annual contraction in the real (inflation-adjusted) broad money supply (M3), remains in place and continues, despite real annual M3 growth having rallied in positive territory for several years. As shown in the accompanying graph—based on April 2015 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for April 2015 annual growth eased back to 5.6%, from an unrevised 5.7% in March 2015. Such reflected a greater slowing in the pace of nominal annual headline M3 growth (see Commentary No. 717), versus a smaller offsetting negative swing in the annual inflation rate.



The signal for a downturn or an intensified downturn is generated when annual growth in real M3 first turns negative in a given cycle; the signal is not dependent on the depth of the downturn or its duration. Breaking into positive territory does not generate a meaningful signal one way or the other for the broad economy. The current "new" downturn signal was generated in December 2009, even though there had been no upturn since the economy hit bottom in mid-2009. Again, when real M3 growth breaks above zero, there is no signal; the signal is generated only when annual growth moves into negative territory. The broad economy tends to follow in downturn or renewed deterioration roughly six-to-nine months after the signal. Weaknesses in a number of economic series have continued to the present, with significant new softness in recent reporting. Actual post-2009 economic activity has remained at relatively low levels of activity—in protracted stagnation, with no actual recovery.

Despite the purported, ongoing recovery shown in headline GDP activity, a renewed downturn in official data is well underway, and eventually should lead to official recognition of a “new” or double-dip recession, possibly by July 30th (see *Opening Comments*). Reality remains that the economic collapse into 2009 was followed by a plateau of low-level economic activity—no meaningful upturn, no recovery from or end to the official 2007 recession—and the unfolding renewed downturn remains nothing more than a continuation and re-intensification of the downturn that began unofficially in 2006. Further discussion of this issue is found in *Chapter 8* of the *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, as well as *No. 692*.

EXISTING-HOME SALES (April 2015)

Existing-Home Sales Declined in April, with Slowing Annual Growth. Moving out of step with the wildly unstable 20.2% headline monthly jump in April 2015 housing starts (see the prior *Commentary No. 720)*, headline existing-home sales fell by 3.3% (-3.3%) in April, with annual growth slowing to 6.1% from 10.9%. The monthly contraction disappointed market expectations for a headline monthly gain of 0.6% [Bloomberg]. The revised first-quarter 2015 annualized quarterly contraction of 6.7% (-6.7%) in existing sales changed only minimally from the initial estimate of an annualized quarterly decline of 7.2% (-7.2%).

The April 2015 headline annualized sales pace of 5,040,000 (a monthly pace of 420,000) remained below the June 2005 pre-recession peak in sales by a simple 31% (-31%). Despite the April headline monthly surge, housing starts remained down by a simple 50% (-50%) versus its January 2006 pre-recession peak.

Headline Detail for April Existing-Home Sales. The May 21st release of April 2015 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted headline monthly decline of 3.3% (-3.3%), following a revised headline gain of 6.5% [previously up by 6.1%] in March. The April headline month-to-month decline was 2.9% (-2.9%), net of prior-period revisions.

On a year-to-year basis, April 2015 sales growth slowed to 6.1%, versus a revised annual gain of 10.9% [previously 10.4%] in March 2015.

The headline April sales data was well within the regular scope of reporting for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that recently had reflected a renewed downturn, as seen in the graph displayed in the *Opening Comments*. The quality of data for this series, however, remains highly questionable.

Portion of Sales in Foreclosure Held Steady. The NAR estimated that the portion of April 2015 sales in "distress" held at 10% (7% foreclosures, 3% short sales), the same level and mix as seen in March 2015, but down from distressed sales of 15% (10% foreclosures, 5% short sales) in April 2014. Reflecting continued lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money into the existing-housing market, the NAR estimated that all-cash sales in April 2015 represented 24% of total activity, the same portion of sales as seen in March 2015, but down from 32% in April 2014.

Bleak Outlook Continues for Home Sales, Based on Impaired Consumer Liquidity Conditions. Discussed in *Commentary No. 718* and *Commentary No. 719* and in the *Opening Comments* on *Real Retail Sales*, there has been no improvement in underlying consumer liquidity conditions. Correspondingly, with no fundamental growth in liquidity to fuel increasing consumer activity, there has not been a basis here for a recovery in the housing market, past or present, and there is no basis for expecting a recovery in the housing market in the near future.

Existing-Home Sales Graph. The *Opening Comments* section also includes the regular monthly graph of existing-home sales activity. That also plot will accompany the updated graph on new-home sales and comparative housing starts data in the next *Commentary No. 722* of May 26th.

WEEK AHEAD

Headline Economic Reporting and Revisions Should Trend Much Weaker versus Overly-Optimistic Expectations; Inflation Will Rise Anew, Following Higher Oil Prices. Although shifting increasingly to the downside, amidst largely-negative reporting and surprises in headline numbers, market expectations for business activity have been, and still remain, overly optimistic. They 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 the consensus outlook. GDP excesses from 2014 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 and increasingly into negative territory.

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, but dropping by 0.2% (-0.2%) in April 2015. A large jump in gasoline prices for May 2015, and a softening of negative seasonal-adjustments for gasoline, promise a headline jump in May 2015 monthly CPI-U inflation, with annual inflation likely pulling at least even with zero.

Significant upside inflation pressures are building, as oil prices rebound, a process that should 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. As noted in the *Opening Comments*, market and political pressures are building on the Bureau of Economic Analysis (BEA) to fix the headline GDP reporting so that current data will not be so negative. Any meaningful, overt shifts by the BEA in headline GDP reporting methodology, other than those already planned with the July 30, 2015 benchmark revision, would be extraordinary in terms of BEA behavior and are not likely, although some gimmicked, less-negative summary numbers already have been planned for publication.

Beyond the pre-announced 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:

New-Home Sales (April 2015). April 2015 new-home sales reporting will be released by the Census Bureau on Tuesday, May 26th. The headline decline of 3.3% (-3.3%) in April 2015 existing-home sales was covered earlier in today's *Commentary.*

Still impaired by negative, underlying pressures from stressed consumer liquidity (see *Commentary No. 718* and *Commentary No. 719*), and as discussed earlier in the *Opening Comments,* prospects for a sustainable increase in home-sales activity remain bleak, for both existing and new sales.

Smoothed for extreme and nonsensical monthly gyrations, an ongoing pattern of stagnation or downturn should continue in play for April 2015 new-home sales, disappointing a positive-consensus outlook, much as existing-home sales did. 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. Again, in parallel with deteriorating and constraining consumer issues, the new-home sales series increasingly should reflect downside volatility in headline activity.

New Orders for Durable Goods (April 2015). The Census Bureau will report April 2015 new orders for durable goods on Tuesday, May 26th. Net of irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of down-trending stagnation. The headline April reporting will be in the context of the generally-downside, benchmark revisions to the series, as published on May 14th (see *Commentary No. 719*).

Real orders contracted quarterly in fourth-quarter 2014 and first-quarter 2015, and they likely will do so again in second-quarter 2015—net of commercial aircraft— signaling broad, economic weakness continuing well into third-quarter 2015.

Commercial aircraft orders are booked for the long-term—years in advance—so they have only limited impact on near-term production. Further, by their nature, these types of orders do not lend themselves to seasonal adjustment. Accordingly, the durable goods measure that best serves as a leading indicator to broad production—a near-term leading indicator of economic activity and GDP—is the activity in new orders, ex-commercial aircraft.

Gross Domestic Product—GDP (First-Quarter 2015, Second Estimate, First Revision). The Bureau of Economic Analysis (BEA) will publish its second estimate of first-quarter 2015 GDP on Friday, May 29th. Discussed in the *Opening Comments* (also see *Commentary No. 719*), the initial headline first-quarter 2015 GDP growth of 0.2% most likely will revise to a sharp, quarter-to-quarter contraction, both before inflation- (nominal) and after inflation-adjustment (real). Early consensus has turned negative for the real GDP revision, with expectations for an annualized contraction of 1.0% (-1.0%) [MarketWatch]. Given positive biases built into the economic consensus, odds favor a worse-than-expected showing.

As usually is the circumstance along with the second reporting of the GDP in a given quarter, initial estimates will be released of the broader GNP measure, and the income-side GDI equivalent of the GDP, also for first-quarter 2015. GDP is a component of the broader Gross National Product (GNP) measure, which includes the trade balance in factor income (interest and dividend payments). GDP also is the consumption-side theoretical equivalent of the income-side estimate of economic activity, Gross Domestic Income (GDI). Headline surprises in either direction always are possible for the GNP and GDI, versus what the markets consider as the primary economic measure, the GDP.

