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

COMMENTARY NUMBER 726
May Nominal Retail Sales, Mid-Year Review of Current Circumstances

June 11, 2015

Broad Outlook Unchanged: Continuing Economic Downturn,
Massive U.S. Dollar Problems and Inflation Issues Ahead

Is Fed in Control of Monetary Policy?
Fed Looks to Raise Rates, Irrespective of the Economy

Trade Deals Usually Reduce U.S. Economic and Employment Activity,
More than 5-Million U.S. Jobs Lost So Far

Strong Nominal Growth in May Retail Sales Will Be Muted Some,
In Real Terms, by Surging Headline Inflation

Annual Retail Sales Growth Still Signaling Recession

Spate of Positive Economic Numbers Likely Has Ended;
Beware Next Week's Headline Production, Housing and CPI Data

PLEASE NOTE: The next regular Commentary*, scheduled for Monday, June 15th, will review May 2015 Industrial Production and the Producer Price Index (PPI). A subsequent* Commentary *on June 16th will cover May Housing Starts, with a further missive on the 18th detailing the May Consumer Price Index (CPI) and related reporting of Real Retail Sales and Real Earnings.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Mid-Year Review. The revised *Hyperinflation Outlook Summary* provides a mid-year review of current circumstances, but the broad outlook has not changed. The U.S. economy remains in ongoing downturn, while the U.S. dollar faces a massive decline, with implications for a meaningful upturn in inflation evolving into hyperinflation. Signs of systemic instability are increasing anew, with some question as to whether Fed has control of its own circumstance.

As to the federal government, there are no apparent, serious efforts afoot to address flailing U.S. economic activity and/or longer-range U.S. sovereign-solvency issues. That is not unusual given the nature of domestic politics coming into an election year. There are, however, immediate and massive efforts in play to push the U.S. into a new trade agreement, and that is bad news going forward for the economy, already heavily-stressed labor conditions and general quality-of-life issues in the United States.

Watch Out for Next Week's Headline Data. The strong jump in headline May retail sales was about as expected, but it has helped to fuel increasingly-positive expectations for second-quarter 2015 GDP growth. Major disappointments in economic reporting likely loom in the next week or two, but the current circumstance could open a brief window of opportunity for the Fed to begin hiking interest rates, as some have suggested, and as discussed shortly.

The happy news on retail sales followed strong April-headline showings in the highly-unstable housing-starts and construction-spending series, and stronger-than-expected headline growth in dubious May payroll-employment numbers. This brief respite from negative economic reporting likely ended today, as should be seen with next week's headline reporting detail of the May industrial production, housing starts and consumer inflation.

In particular, headline May industrial production should do much to set the tone for faltering second-quarter GDP growth. In turn, May housing starts should reverse much of the headline surge seen in April's starts, while a sharp jump in the headline CPI would mute real (inflation-adjusted) growth in series such as retail sales and income (see the *Week Ahead*). In combination with the preceding, the next round of reporting on the May trade deficit and June retail sales, in particular, remain strong bets to move expectations for second-quarter GDP back towards flat-to-minus activity.

Has the Fed Lost Control of the Monetary System? Despite near-zero interest rates being a negative factor for the economy, the Fed used its quantitative easings to help support the banking system. The Fed specifically did not use quantitative easing to help the economy. Regardless of the hype about the Fed's Congressional mandate to target reasonable domestic economic activity and inflation—factors over which the Fed has little positive control—the primary mission of the U.S. Central Bank remains keeping the domestic-banking system solvent and functioning.

The "weak economy" largely has been used by the Fed as political cover for the quantitative easings it used in the ongoing bailout of the banking system. Now, the Fed appears ready to raise interest rates, but the economy generally has not been cooperating. When it is ready, the Fed just will raise rates. Doing so will hurt the economy less than Fed policies since the Panic of 2008 have done already, it might even help some. The concept put forth by the Fed of a change in interest-rate policy being dependent on economic improvement appears to have been little more than a canard aimed at helping with public and Wall Street perceptions of Fed policy.

Among other issues, low interest rates have hurt those living on fixed incomes, have discouraged more-aggressive lending by banks into the normal flow of commerce, lending that otherwise might have provided some economic stimulus, and otherwise have distorted systemic conditions.

With the low interest rates and the flood of liquidity to the banking system (not into the broad economy) from the quantitative easing, the stock market prospered like a drug addict. The drug dealing by the Fed was excessive, and the central bank's holding back on higher interest rates now likely has been tied more to potential negative stock-market reaction and withdrawal, than to fears of damaging the economy.

Limited Window of Opportunity for a Fed Rate Hike? There has been increased talk of an imminent shift in Fed policy, raising rates at next week's FOMC meeting (June 17th). The Fed appears increasingly willing to boost interest rates, irrespective of underlying economic reality. If the Fed really wants to raise rates, which is likely, the timing at present is about as good as it will be for some time.

Headline economic numbers are going to get a great deal worse than they are at the moment. The economy is not recovering, and such will be seen in reporting of the weeks ahead.

The stock market seems well inured to a rate hike, and the concept appears to have been built into the U.S. dollar exchange rate for some time.

If the Fed really is awaiting signs of meaningful economic recovery before it raises interest rates, there will be no rate hike in 2015. Otherwise, if the Fed does not tighten in the near future, such may be a sign of perceived frailties still present in the financial system, ranging from the banking system to Wall Street. If the Fed does tighten, it will have regained some control over its monetary system, at least temporarily. Whether or not the Fed tightens now, the U.S. dollar still should decline massively as the new economic downturn convincingly unfolds.

"Free-Trade" Agreements Traditionally Hammer U.S. Economic Activity and Personal Income. With Congress considering the parameters of major, new trade legislation, a review of the general impact of trade agreements on the broad economy may have some merit. Precedent does not favor a positive circumstance here. Current trade negotiations are designed for global benefit, at the cost of serious negative impact on the U.S. economy and the wellbeing of the U.S. populace. Accordingly, one would hope that the details of any pending trade treaty would be disclosed fully to the public and open for broad discussion, before a final agreement was pushed through the system.

Many of the issues impairing current U.S. economic activity are due to the deleterious effects of other "free-trade" agreements and liberalized trade policies foisted on the public by various Administrations and Congresses of the last several decades. The sales pitch usually has been along the lines that free trade means increased trade, which will mean more U.S. jobs and stronger, domestic economic growth.

That theory only works when all the involved parties are at full employment. Then, respective competitive advantages supposedly will shift production between the involved countries, with overall production increasing for the system and everyone making more money. That, however, usually does not happen.

Full employment has not been the condition for some time in the United States, and certainly not with its current or prospective free-trade partners. In the less-than-full-employment circumstance, the trade gain usually just shifts to the low-cost (*i.e.*, low-wage) producer.

For example, with the North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico, factories were shut down in the United States, with of a number of facilities (and jobs) moved to less-than-full-employment Mexico. Consideration of related, pending U.S. jobs losses, particularly in areas heavily reliant on a given manufacturer, may have been a factor behind the Bureau of Labor Statistics (BLS) redefinition of its unemployment series. Such included the elimination of counting of long-term discouraged workers. The revisions to and redefinitions of the unemployment series were made in 1994, coincident with the activation of NAFTA.

Yes, there were gains in employment with new business created in the U.S. Yet, the net jobs "creation" from NAFTA was in reality a net loss for the United States of about 700,000 (-700,000) jobs, as of 2014. That does not take into account the level of skill and pay that went with the jobs lost, versus the jobs gained.

The total U.S. trade deficit in 2014 reflected a net aggregate loss of 5,500,000 (-5,500,000) domestic jobs.

A Nation's Trade Deficit Subtracts from Its Economic Growth. In the regular tallying of economic activity, exports contribute to national growth, while imports subtract from national growth. To the extent a nation enjoys a net trade surplus—more exports than imports—such helps to build national wealth and prosperity, along with generally-positive labor and personal income conditions.

When a nation suffers a trade deficit—more imports than exports—such acts as a drain on national wealth, usually limiting labor and income circumstances and directly subtracting from GDP growth.

A significant portion of the current economic weakness in the United States can be attributed to what has become the near-perpetual, extraordinarily-high U.S. trade deficit, including negative liquidity stresses on consumers. Sharply exacerbated by "free-trade" trade agreements, the trade shortfall accounts for many of the difficulties experienced by unemployed individuals in finding adequate, full-time employment, with the effect that median household income cannot stay ahead of inflation. Median household income today is below CPI-U-adjusted levels of forty years ago. As a result, low-level economic stagnation continues in the wake of an actual non-recovery from the economic collapse into 2008 and 2009 (see the consumer liquidity discussion, as well as the "corrected" GDP in *Commentary No. 723*).

Recent government actions to accelerate the influx of cheap labor from abroad, both skilled and unskilled, have exacerbated these issues. Where influences from some large businesses have pushed such efforts, the effects of these policies only intensify domestic instabilities in the current environment of economic weakness and slack labor conditions. With some highly-skilled individuals in the U.S. being replaced by much lower-cost individuals of limited experience, the effects on the broad system are negative, both as to the quality of work produced and as to the resulting quality of domestic lifestyles. Yet, the much-harangued and underemployed U.S. consumer still has to be able to make a reasonable living, if he or she is to consume products and services in a manner adequate to fuel long-range, broad, domestic economic growth, which, in turn, contributes to the long-term benefit, profitability and stability of corporate America.

Merchandise Trade Deficit Widened from $689 Billion in 2013 to $723 Billion in 2014. In nominal terms, the annual U.S. merchandise trade deficit widened by about five-percent in 2014, to $723 billion, from $689 billion in 2013. That trade shortfall represented the loss of roughly 5.5 million U.S. jobs. Much of the U.S. trade-balance deterioration during the last four decades has been due to domestic trade and other regulatory policies that have driven the U.S. manufacturing base offshore.

Representing the effective net loss of about 2.6 million U.S. jobs, the deficit with China hit $343 billion in 2014, nearly half of the aggregate U.S. shortfall. The 2014 deficit with China widened by about eight-percent, from the $319 billion shortfall in 2013. Those numbers do not include transshipment of Chinese goods through third-party countries.

The U.S. trade deficit within NAFTA—Canada and Mexico—widened minimally to $87.9 billion in 2014, versus $85.4 billion in 2013. Again, in terms of bad trade policies related to U.S. economic health—domestic production and employment—NAFTA stands out.

When the treaty went into effect on January 1, 1994, the U.S. had a small surplus with Mexico and Canada, but that has turned into a meaningful deficit. Irrespective of any politically-hyped jobs-creation stories that have surrounded the NAFTA deal, again, U.S. economic activity has suffered a net loss in domestic employment of roughly 700,000 jobs, thanks specifically to that regional "free-trade" pact.

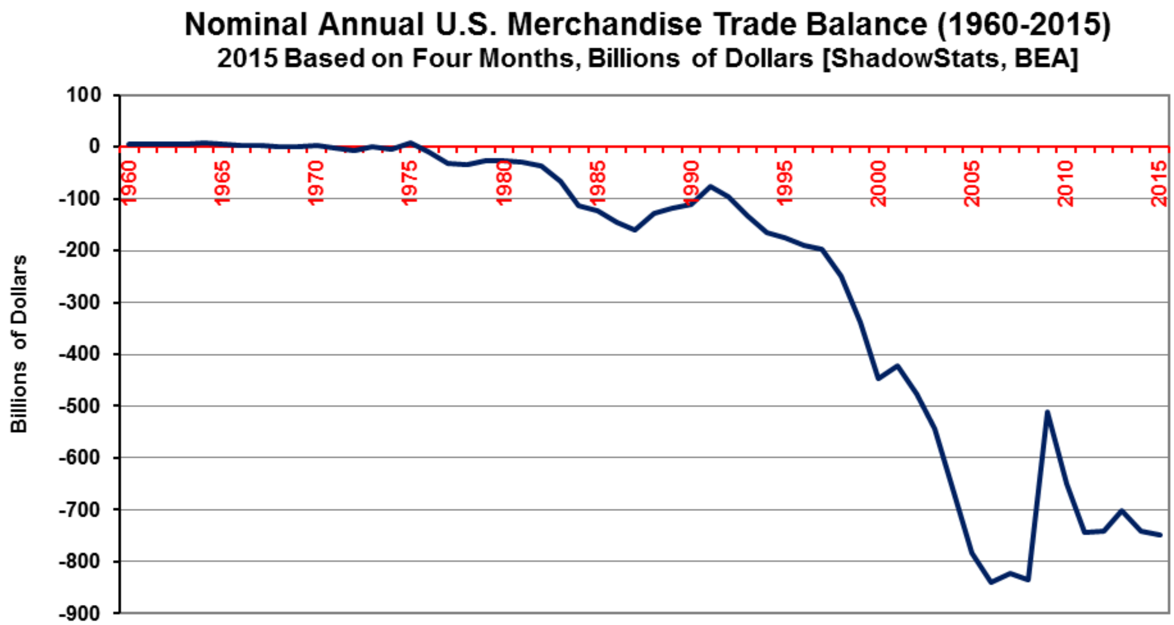
Rounding out the top-five, largest deficit-trading relationships of the last two years, the shortfall with Germany widened to $73.7 billion in 2014, from $67.0 billion in 2013; the deficit with Japan narrowed to $67.0 billion in 2014, from $73.4 billion in 2013; while the deficit with OPEC narrowed to $49.4 billion in 2014, from $68.0 billion in 2013.

Trade Deficit versus Economic Activity and Personal Income. The three graphs following show various aspects of the U.S. trade deficit. Shown in *Graph 1*, the nominal (not-adjusted-for inflation) annual merchandise trade balance turned to perpetual deficit by the mid-1970s, with the deficit intensifying sharply post-NAFTA. The gyrations after 2005 largely reflected global economic turmoil and wild swings in oil prices.

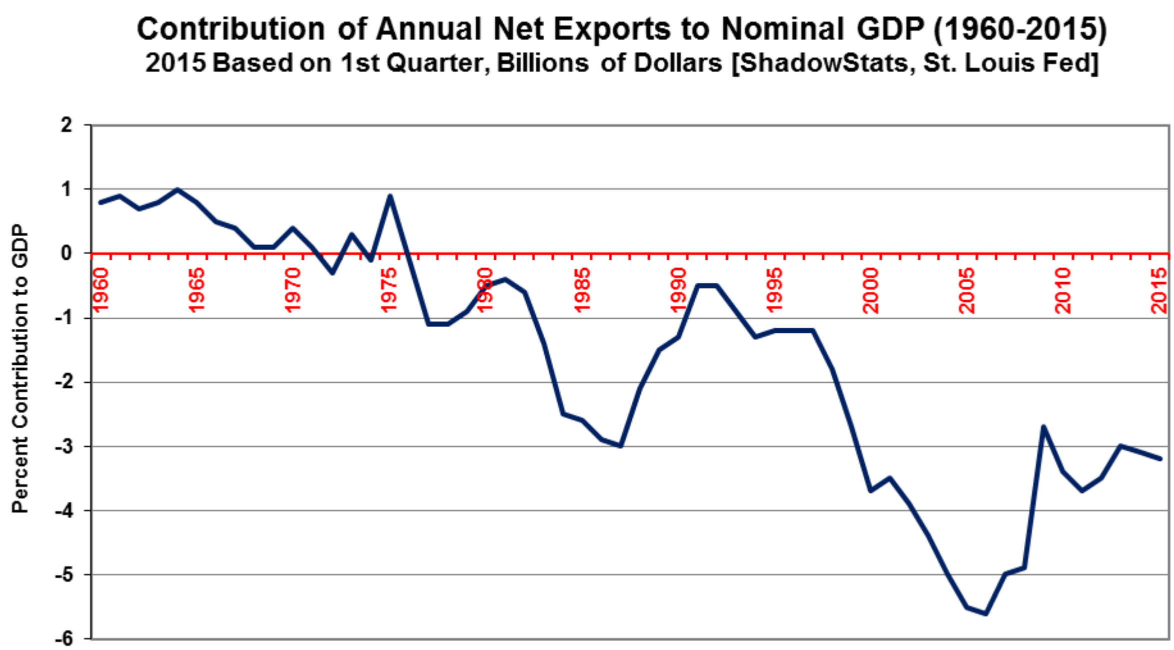
Graph 2 shows the nominal contribution of the balance in net exports to total GDP, again with the negative net-export balance—the trade deficit—turning perpetual in 1976 and deteriorating sharply after 1995. Adjusted for inflation, the real net exports account (*Graph 3*) generally has been a net-negative contributor to real GDP since at least 1960, again with accelerating deterioration after 1995.

Heavily hit by liberalized trade policies, manufacturing has lost ground in recent decades, with many higher-paying production jobs disappearing, moving offshore. Shown in *Graphs 4* and *5*, where nonmanufacturing jobs have more than tripled since 1960, manufacturing jobs have declined by roughly 25%, and are down by about 40% from 1980, with losses accelerating after 2000. Manufacturing jobs have been in steady decline as a portion of total payrolls (*Graph 6*), versus growth in the services industries, again with the resulting loss of relatively higher-paying jobs.

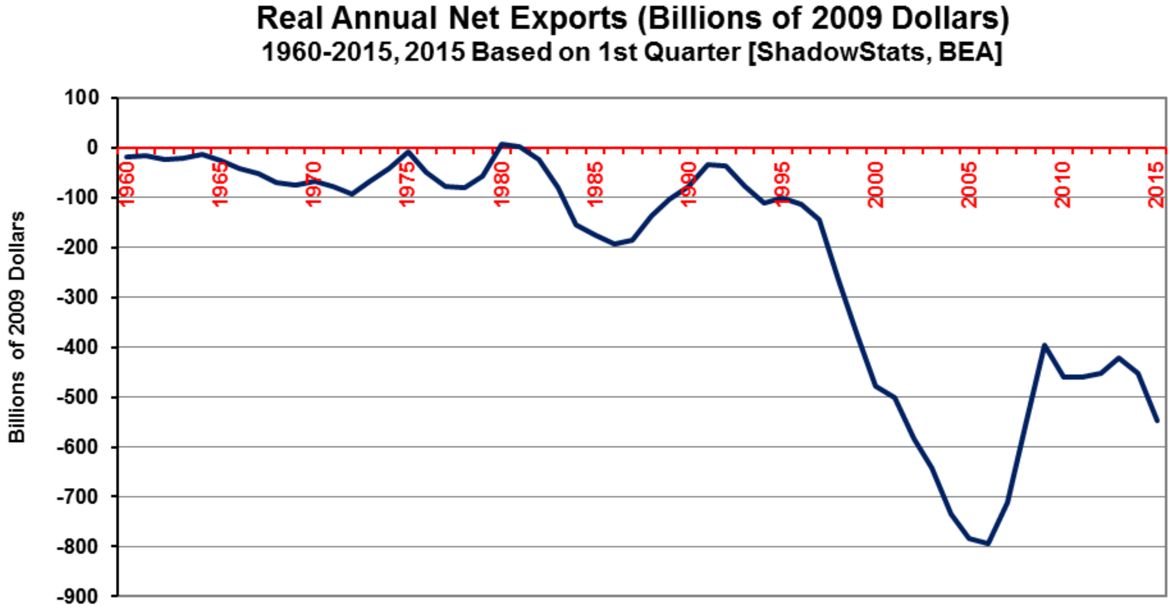
Graph 1: Nominal Merchandise Trade Balance



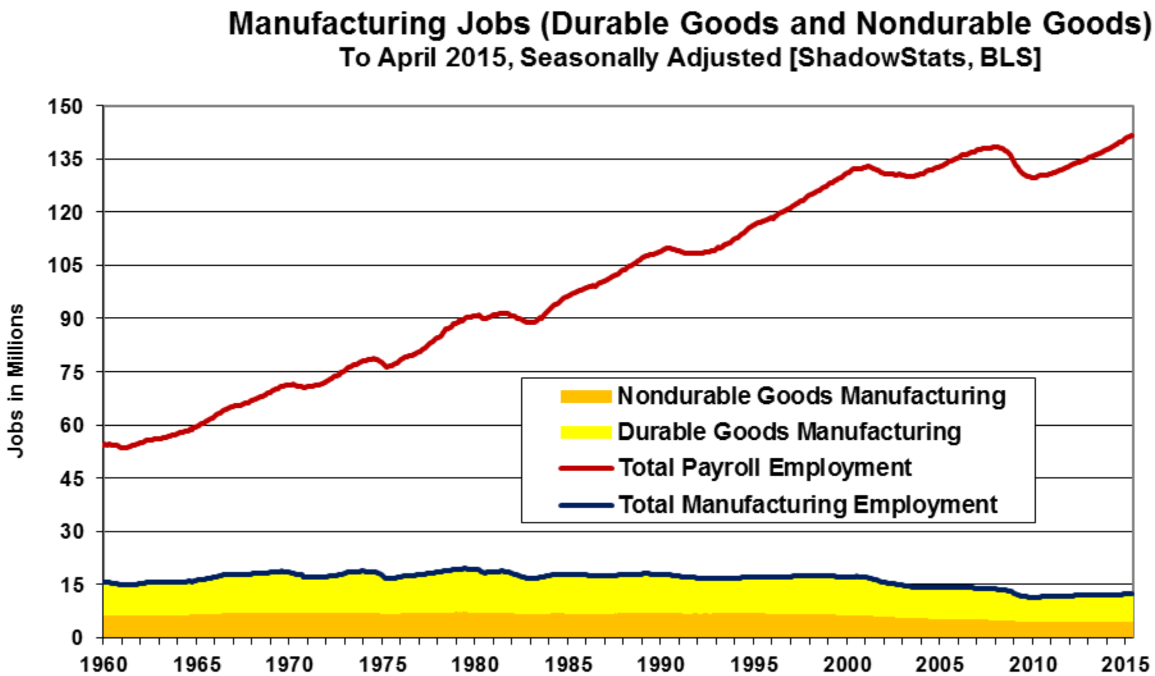
Graph 2: Contribution of Net Exports to Nominal GDP



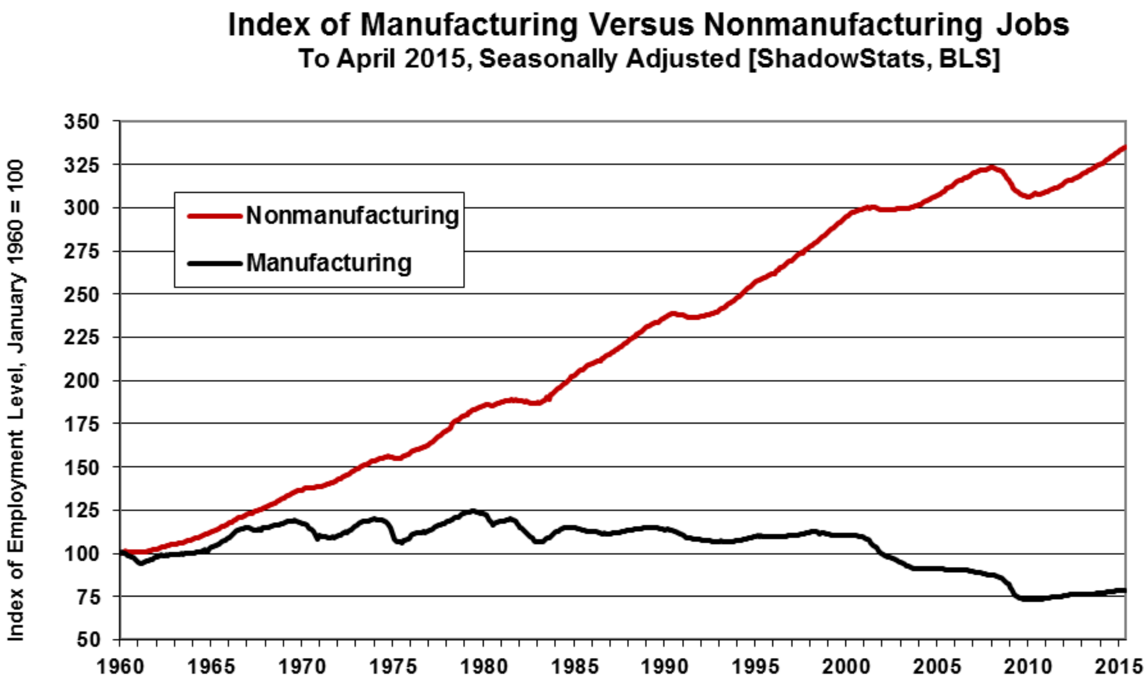
Graph 3: Real Net Exports



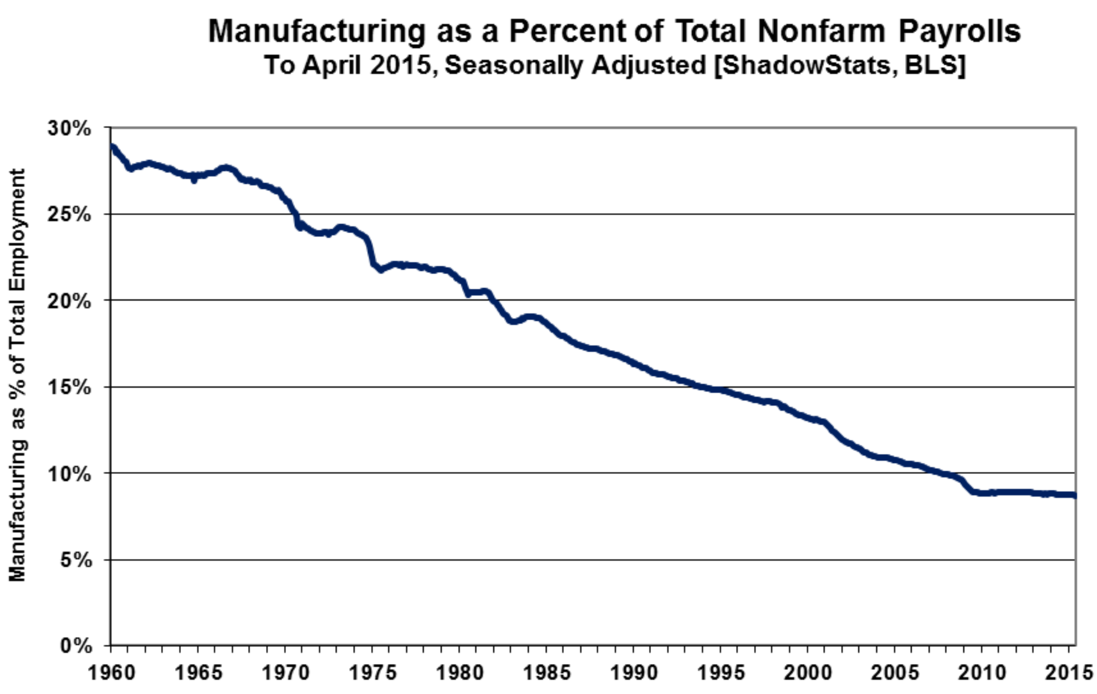
Graph 4: Manufacturing Jobs versus Total Employment



Graph 5: Index of Manufacturing versus Nonmanufacturing Jobs



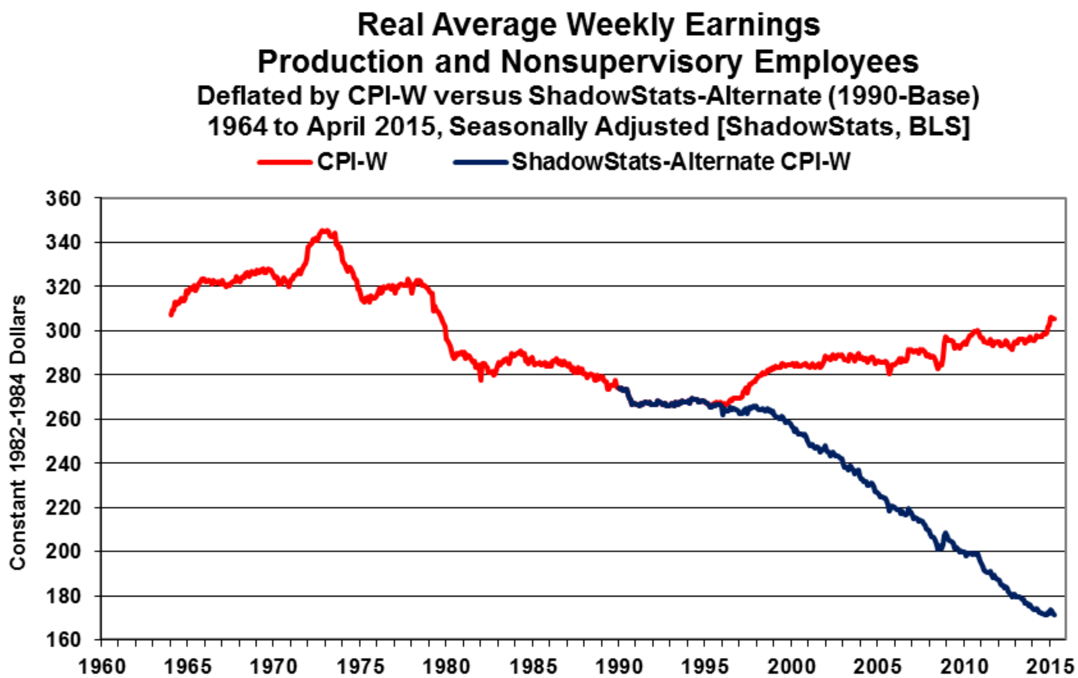
Graph 6: Manufacturing Jobs as a Percent of Total Payrolls



The effect on income is reflected in *Graph 7* of real average weekly earnings for production and nonsupervisory employees (updated monthly in the CPI *Commentary*). The graph shows monthly 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 detail. Separately, the recent sharp decline in headline monthly inflation—resulting from a drop in gasoline prices—generated a temporary, but visible spike in the real-earnings levels of late-2014, early-2015.

Graph 7: Real Average Weekly Earnings of Production and Nonsupervisory Employees



Today's Missive (June 11th). The balance of today's *Opening Comments* concentrates on the detail from the headline reporting of May 2015 activity in nominal retail sales.

The updated *Hyperinflation Outlook Summary* returns with this missive, incorporating a mid-year review of current circumstances. The broad general outlook has not changed (see *Commentary No. 722* for the prior *Summary*).

Separately, the *Week Ahead* section provides a preview of the next week's heavy schedule of May economic releases, including Industrial Production, Housing Starts, the inflation indices for Producer Prices (PPI) and Consumer Prices (CPI), and CPI-related reporting of Real Retail Sales and Real Earnings.

Nominal Retail Sales—May 2015—Strong Nominal Growth Will Be Muted Some, in Real Terms, by Rising Inflation. In the context of upside revisions to March and April activity, headline May 2015 retail sales jumped by 1.2% for month, minimally shy of late-consensus expectations of 1.3% [Bloomberg] and 1.5% [MarketWatch]. A fair portion of the nominal sales gain was due to rising prices, which is why most economic series usually are adjusted for inflation before being assessed to implications for broad economic activity.

Where early expectations for the May CPI-U are for a monthly increase of 0.5% (see the *Week Ahead* section), a consensus inflation gain for the month still would leave a strong monthly sales gain of about 0.7% in real terms, net of inflation. Actual real retail sales will be addressed, along with the CPI-U, on June 18th.

Despite the strong May showing, the bleak outlook for consumer spending has not changed; structural consumer-liquidity problems continue, as discussed below. Next month's headline reporting and revisions likely will weaken the detail for second-quarter 2015 real retail sales. As usual, shifting seasonal adjustments here, with inconsistent reporting of related historical data, have distorted the headline numbers.

Nonetheless, based just on the May reporting, implied second-quarter 2015 nominal retail sales growth turned increasingly positive with today's reporting, as did the likely circumstance for real retail sales, barring an unexpectedly-large surge in headline June CPI-U reporting. Such follows a disastrous 2014 Holiday Season, the weakest since the economic collapse from 2007 into 2009; nominal and real quarterly contractions in first-quarter 2015; and initial April 2015 reporting that suggested flat second-quarter real activity.

Nominal (Not-Adjusted-for-Inflation) Retail Sales—May 2015. In nominal terms—before adjustment for consumer inflation—headline May 2015 retail sales showed a statistically-significant, seasonally-adjusted headline increase of 1.21%. Such followed a revised, statistically-insignificant April monthly gain of 0.24%, and a revised March gain of 1.54%. Net of prior-period revisions, the monthly change in May was a gain of 1.87% versus the headline 1.21%.

Year-to-Year Annual Change. Year-to-year sales in May 2015 increased by a statistically-significant 2.65%, versus a revised gain of 1.51% in April 2015 and a revised increase of 2.15% in March 2015. The revised annual changes reflect the continual, non-economic monthly shifting of seasonal-adjustment factors, as misused in the regular Census Bureau reporting of the series (see *Seasonal-Factor Distortions* in the *Reporting Detail* section).

Annualized First-Quarter Contraction, Developing Second-Quarter Change. The pace of annualized nominal retail sales change in first-quarter 2015 was a revised contraction of 4.04% (-4.04%), still the worst quarterly showing since the economic collapse. The nominal annualized quarterly growth for second-quarter 2015 retail sales would be 6.95%, based solely on April and May reporting.

Net of inflation, the real retail sales change in first-quarter 2015 was a revised quarterly contraction of 1.02% (-1.02%). Detail on the unfolding quarterly change in second-quarter real retail sales will be covered in the June 18th CPI-U *Commentary*.

Real (Inflation-Adjusted) Retail Sales—May 2015. The nominal headline gain of 1.21% in May 2015 retail sales was before accounting for inflation. Real retail sales activity in May will be discussed along with the headline estimate of consumer inflation for May 2015, in *Commentary No. 729* of Thursday, June 18th. Again, early expectations [MarketWatch] are for a 0.5% gain in the headline May CPI-U.

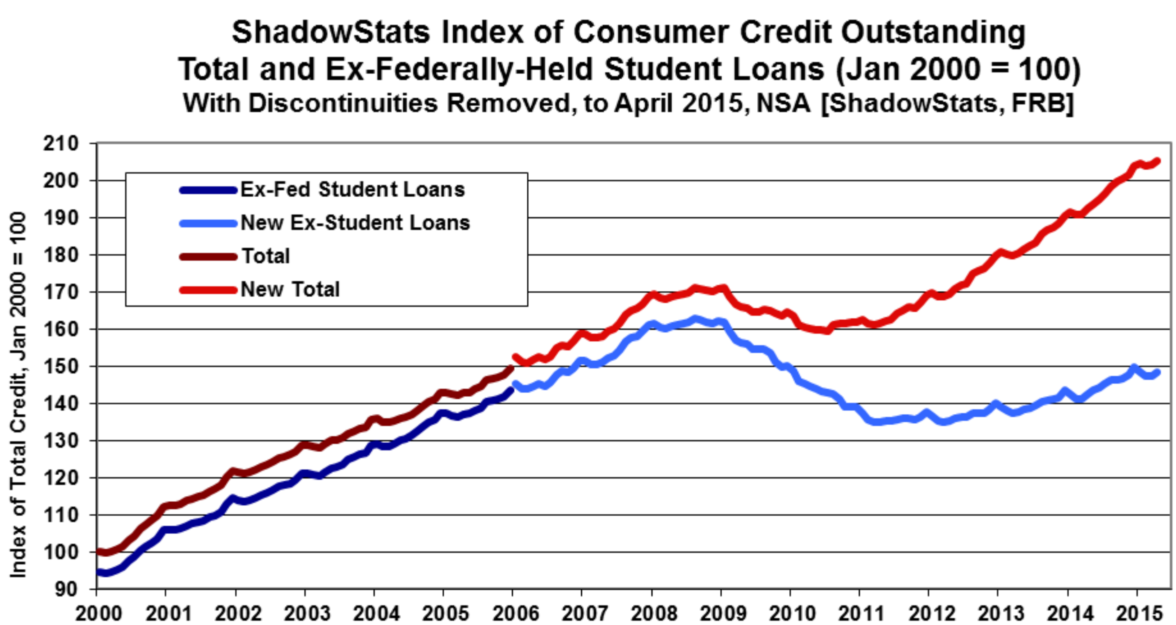
A consensus inflation reading would mute today's headline nominal gain, but it still would leave a relatively-strong real growth reading. Annual real growth in May 2015 sales should remain close to the historical warning signal of imminent recession. Where annual real growth below the 2.0% traditionally signals an imminent recession, the signal already generated by April 2015 retail sales held in place.

Structural Liquidity Issues Constrain Consumer Economic Activity—Updated Consumer Credit Outstanding for April 2015. Detailed more fully in *Commentary No. 723*, the underlying issue with current retail sales activity remains intense, structural-liquidity woes besetting the consumer. That circumstance—in the last seven-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity.

Without real growth in income, and without the ability and/or willingness to offset declining purchasing power with debt expansion, the consumer lacks the ability to fuel traditional, consumption-based growth or recovery in U.S. economic activity, including retail sales and the still-dominant personal-consumption account of the GDP. The same factors have pummeled activity in home sales and related construction activity. With a significant portion of consumers under financial stress, there has been no basis for a sustainable economic expansion since the Panic of 2008, and there are no prospects for a recovery in the near future.

Updating *Commentary No. 723*, the following graph of consumer credit outstanding reflects the recently pushed April 2015 detail from the Federal Reserve.

Graph 8: Consumer Credit Outstanding



Debt expansion can help to make up for a shortfall in income growth. Yet, post-2008 Panic, growth in consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption growth. Before consideration for inflation, the nominal level of consumer credit outstanding (ex-student loans) neither has rebounded nor or recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis.

[The* Reporting Detail *section includes greater detail on May 2015 nominal retail series.]

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HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY

Broad Outlook Is Unchanged; Economy Remains in Downturn; Dollar Faces Massive Decline with Ongoing Implications for a Hyperinflation Crisis. This revised *Hyperinflation Outlook Summary* provides a mid-year 2015 review of current circumstances, but the broad outlook has not changed. The U.S. economy remains in ongoing downturn, while the U.S. dollar faces a massive decline, with implications for a meaningful upturn in inflation evolving into hyperinflation. Signs of systemic instability are increasing anew.

Background. Underlying this missive, *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 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, likely by 2020. 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 the *Hyperinflation Report—First Installment Revised* (linked earlier). The following summarizes the underlying current circumstance and recent developments.

The U.S. dollar rallied sharply from mid-2014 into early-2015, initially reflecting likely financial sanctions and oil-price manipulations by the United States, aimed at creating financial stresses for Russia, in the context of the Ukraine situation. Relative U.S. economic strength, and the relative virtuousness of Fed monetary policy versus major U.S. trading partners, were heavily picked-up on and heavily over-estimated by the global markets looking to support the dollar. Yet structural faults started to appear in the foundation underpinning U.S. dollar strength (see *Commentary No. 711*).

Consistent with the above referenced *Special Commentaries*, the unfolding, weakening domestic-economic circumstance in 2015, in confluence with other fundamental issues, had 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 a result, the U.S. dollar backed off its recent highs, with some related upside pressure having been seen on oil prices, but those changes have been relatively small, so far.

First-quarter 2015 U.S. GDP contracted by 0.7% (-0.7%) in its first revision. Although early reporting on the second-quarter economy indicated the likelihood of a second, consecutive quarterly GDP downturn, which would constitute a new recession, reporting of the last several weeks has been relatively strong, as discussed in today's *Opening Comments*. Such numbers strong numbers should prove fleeting, and a second-quarter GDP contraction remains likely.

Nonetheless, the Fed could raise interest rates at any time, irrespective of economic activity. Where both the stock market and currency markets pretty much already have anticipated such action in their pricing, the big market moves ahead should come from areas such as a downside surprises in U.S. economic reporting, which increasingly will show an ongoing contraction in activity.

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, if the Fed has not already tightened, but also renewing expectations for a more-accommodative or newly-accommodative Fed. While such could 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 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 the broadly related selling pressures seen in the gold and silver markets.

A crash back to recognition of more-realistic domestic-economic circumstances began, then faltered recently, but should resume shortly, possibly in in a matter of weeks. 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 for heavy selling of the dollar.

***Current Economic Issues versus Underlying U.S. Dollar Fundamentals*.** U.S. economic activity is turning down anew, despite brief fluttering in unstable series. GDP and industrial production face heavy downside-benchmark revisions through the end of July. Other key series all have benchmarked to the downside. Weak, underlying economic reality generally has surface in headline reporting and should become increasingly and painfully obvious to the financial markets in the 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 resume shifting 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, more than fully reversing the dollar's gains since June 2014, 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—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. Nonetheless, the Fed still likely will move to normalize interest rates (see *Opening Comments*), if it can get away with it.

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; if the Fed does not act quickly to extricate itself from prior actions, 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 the ability of the Federal Reserve to alter its 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 the *Opening Comments* and *Commentary No. 723*). 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. If the Fed does not move soon to boost interest rates, it may be trapped in a renewed expansion to quantitative easing, 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 any 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, except possibly for new trade legislation, which would compound domestic economic problems. Issues such as non-recovered, faltering economic activity, the consumer liquidity crisis, and addressing the nation's long-range solvency issues should continue to devolve, into extreme political crises.

- ***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, significant reversal in the dollar's strength should intensify the "dump-the-dollar" rhetoric rapidly.

When the selling pressure breaks massively against the U.S. currency, the renewed and intensifying weakness in the dollar will place upside pressure on oil prices and other commodities, boosting domestic inflation and inflation fears. Domestic willingness to hold U.S. dollars will tend to move in parallel with global willingness, or lack of willingness, to do the same. These circumstances will trigger the early stages of a hyperinflation, likely in the year ahead.

Both the renewed dollar weakness and the resulting inflation spike should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises. Investors need to preserve the purchasing power and liquidity of their wealth and assets during the hyperinflation crisis ahead. Again, see Chapter 10, *2014 Hyperinflation Report—Great Economic Tumble* for detailed discussion on approaches to handing the hyperinflation crisis and *No. 692 Special Commentary: 2015 - A World Out of Balance*, for other factors afoot in the current environment.

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REPORTING DETAIL

NOMINAL RETAIL SALES (May 2015)

Strong Growth in Nominal May Retail Sales Will Be Muted in Real Terms by Rising Inflation. In the context of upside revisions to March and April activity, headline May 2015 retail sales jumped by 1.2% for month, minimally shy of late-consensus expectations of 1.3% [Bloomberg] and 1.5% [MarketWatch]. A portion of the nominal sales gain was due to rising prices, which is why most economic series usually are adjusted for inflation before assessing them as to implications for broad economic activity.

Where early expectations for the May CPI-U are for a monthly increase of 0.5% (see the *Week Ahead* section), a consensus inflation gain for the month still would leave a strong monthly sales gain of about 0.7% in real terms, net of inflation. Actual real retail sales detail will be addressed along with the CPI-U on June 18th.

Despite the strong May showing, the bleak outlook for consumer spending has not changed; structural consumer-liquidity problems continue, as discussed below and in the *Opening Comments*. Next month's headline reporting and revisions likely will weaken the detail for second-quarter 2015 real retail sales. As usual, the headline numbers here were distorted by shifting seasonal adjustments, with inconsistent reporting of related historical data.

Nonetheless, based just on the May reporting, implied second-quarter 2015 nominal retail sales growth turned increasingly positive with today's numbers, as did the likely circumstance for real retail sales, barring an unexpectedly-large surge in headline June CPI-U reporting. Such follows a disastrous 2014 Holiday Season, the weakest since the economic collapse from 2007 into 2009; nominal and real quarterly contractions in first-quarter 2015; and initial April 2015 reporting that suggested flat second-quarter real activity.

Structural Liquidity Issues Constrain Consumer Economic Activity. Discussed in *Commentary No. 723* and updated in the *Opening Comments*, the underlying issue with current retail sales activity remains intense, structural-liquidity woes besetting the consumer. That circumstance—in the last seven-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity.

Without real growth in income, and without the ability and/or willingness to offset declining purchasing power with debt expansion, the consumer lacks the ability to fuel traditional, consumption-based growth or recovery in U.S. economic activity, including retail sales and the still-dominant personal-consumption account of the GDP. With a significant portion of consumers under financial stress, there has been no basis for a sustainable economic expansion since the Panic of 2008, and there are no prospects for a recovery in the near future.

Nominal (Not-Adjusted-for-Inflation) Retail Sales—May 2015. In nominal terms—before adjustment for consumer inflation—today's June 11th report on May 2015 retail sales—issued by the Census Bureau—showed a statistically-significant, seasonally-adjusted headline increase of 1.21% +/- 0.58% (this and all other confidence intervals are expressed at the 95% level). Such followed a revised, statistically-insignificant April monthly gain of 0.24% +/- 0.24% [previously unchanged at 0.00%]. The headline March gain revised to 1.54% [previously up by1.12%, versus a prior benchmarked gain of 0.89%]. Net of prior-period revisions, the monthly change in May was a gain of 1.87% versus the headline 1.21%.

Year-to-Year Annual Change. Year-to-year sales in May 2015 increased by a statistically-significant 2.65% +/- 1.53%, versus a revised gain of 1.51% [previously up by 0.88%] in April 2015, and a revised increase of 2.15% [previously up by 1.73%, versus a prior benchmarked gain of 1.32%] in March 2015. The annual revisions here reflect the continual, non-economic monthly shifting of seasonal-adjustment factors, as misused in the regular Census Bureau reporting of the series (see the *Seasonal-Factor Distortions* section).

Annualized First-Quarter Contraction, Developing Second-Quarter Change. The pace of annualized nominal retail sales change in first-quarter 2015 was a revised contraction of 4.04% (-4.04%) [previously down by 4.57% (-4.57%) and initially down by 4.80% (-4.80%) in the benchmark], still the worst quarterly showing since the economic collapse.

The nominal annualized quarterly growth for second-quarter 2015 retail sales would be 6.95%, based solely on April and May reporting; that had been 2.30%, based solely on the initial reporting for April.

Net of inflation, the real retail sales change in first-quarter 2015 was a revised quarterly contraction of 1.02% (-1.02%) [previously down by 1.56% (-1.56%), initially down by 1.80% (-1.80%) in the benchmark]. Detail on the unfolding quarterly change in second-quarter real retail sales will be covered in the June 18th CPI-U *Commentary*.

May Core Retail Sales—Core Sales Growth Weakened by Rising Gasoline Prices. Reflecting an environment of generally rising food prices and an unadjusted 9.69% monthly gain in gasoline prices [Department of Energy], seasonally-adjusted monthly grocery-store sales rose by 0.28% in May 2015, with gasoline-station sales up by 3.68% for the month.

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

<u>Version I:</u> May 2015 versus April 2015 seasonally-adjusted retail sales series—net of total grocery store and gasoline station sales—reflected a monthly increase of 1.09%, versus the official headline aggregate gain of 1.21%.

<u>Version II:</u> May 2015 versus April 2015 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—reflected a monthly increase of 0.87%, versus the official headline aggregate gain of 1.21%.

Real (Inflation-Adjusted) Retail Sales—May 2015. The nominal headline gain of 1.21% in May 2015 retail sales was before accounting for inflation. Real retail sales change in May will be published along with the headline estimate of consumer inflation for May 2015, in *Commentary No. 729* of Thursday, June 18th. Early expectations [MarketWatch] are for a 0.5% gain in the headline May CPI-U.

A consensus inflation reading would mute today's headline nominal gain, but it still would leave a relatively-strong real growth reading. Annual real growth in May 2015 retail sales should remain close to the historical warning signal of imminent recession. Where annual real growth below the 2.0% traditionally signals an imminent recession, the signal generated by April 2015 retail sales held in place.

Seasonal-Factor Distortions and Other Reporting Instabilities. The usual seasonal-factor distortions were at play in May 2015 reporting, where the headline data reflected concurrent seasonal adjustments. Given Census Bureau reporting procedures, the headline detail is not comparable with most earlier reporting. Accordingly, current data can reflect growth shifts from earlier periods, without the specifics being published. The principles and reporting issues with the way the government reports economic series adjusted by concurrent seasonal factors were explored, in-depth, in *Commentary No. 695*.

The adjustment issues here are the same as with the employment and unemployment series. The reporting fraud is not in the use of concurrent seasonal-factor adjustments *per se*, but rather in the Census Bureau's not publishing fully-consistent, historical data each month.

As is the common pattern in all the headline monthly reporting for the retail series, the year-ago numbers of April 2014 and May 2014 were revised, along with the publication of the May 2015 data and revised detail on March 2015 and April 2015. The year-ago revisions simply were junk reporting, due solely to shifts in their seasonal adjustments that resulted from the unique calculations of the seasonal factors that generated the headline May 2015 detail. The revisions were not due to the availability of any new historical data back in 2014. Only the new details for April and May 2014 and for March and April 2015 were published on a basis consistent with the May 2015 number.

Specifically, the level of April 2014 revised minimally higher by 0.02%, but May 2014 was revised lower by 0.19% (-0.19%) suggestive of a downside revision in the current May 2015 seasonals from what they might have been in the old fixed-seasonal adjustment system. More commonly, the year-ago number is revised higher, with the effect—desired or otherwise—of minimizing the reporting of headline monthly contractions, or maximizing the headline gains. All this happens without the specifics as to where headline activity has been shifted month-to-month. Full detail is available internally to the Census Bureau, but the Bureau chooses not to publish the detail.

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

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

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WEEK AHEAD

Headline Economic Reporting and Revisions Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with Rising Oil Prices. In a fluctuating trend to the downside, amidst still-predominantly-negative reporting and surprises in headline numbers, market expectations for business activity nonetheless respond to the latest market hype. The general effect tends to hold the market outlook at overly-optimistic levels. Expectations exceed any potential, underlying economic reality.

GDP excesses from 2014 should face downside adjustments in the July 30, 2015 GDP benchmark, and subsequent to the current headline contraction in first-quarter 2015 GDP, expectations for headline growth in second-quarter 2015 should resume shifting to the downside, increasingly towards (eventually into) negative territory, as headline economic reporting turns lower in the week and weeks ahead.

Headline CPI-U consumer inflation—recently driven lower by collapsing prices for gasoline and other oil-price related commodities—likely has seen 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 increase in May 2015 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. Again, see the *Commentary No. 722* as to recent market and political pressures on the Bureau of Economic Analysis (BEA) relative to GDP reporting. Any meaningful, overt shifts by the BEA in headline GDP reporting methodology, other than those already planned for the July 30, 2015 benchmarking, would be extraordinary in terms of BEA behavior and are not likely. Still, 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 monthly 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, explored in the labor-data related *Commentary No. 695*).

Combined with recent allegations of Census Bureau falsification of data in its monthly Current Population Survey (the source for the Bureau of Labor Statistics' Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series (see *Commentary No. 669*).

PENDING RELEASES:

***Updated* Producer Price Index—PPI (May 2015).** The Bureau of Labor Statistics (BLS) will release the May 2015 PPI tomorrow, Friday, June 12th. The next ShadowStats *Commentary No. 727* of June 15th will discuss the detail. Late-consensus expectations are for a sharp pick-up in May wholesale inflation, with MarketWatch indicating an expected, headline monthly gain of 0.5% (previously 0.6%), which is close to the late-consensus expectation out of Bloomberg for a 0.4% headline monthly gain. All expectations are in the context of a headline April 2015 PPI contraction of 0.4% (-0.4%).

Expectations for a strong increase in the PPI are reasonable, given rising energy inflation and positive shifts in related seasonal factors. A major constraint on headline-PPI inflation in this circumstance, though, is the perverse, reverse-inflation impact that rising oil-related costs have in the now-dominant services sector. Although indicative of future inflationary pressures, rapidly-rising costs tend to reduce near-term service-sector margins, a circumstance that is deflationary, per BLS definition.

While the collapse in oil and gasoline prices bottomed out in February 2015, pricing pressures were mixed in March (oil down, gasoline up) but generally rose in April. Yet, somehow the headline, seasonally-unadjusted energy numbers fell in the April PPI, even before negative seasonal-adjustments exaggerated the inflation understatement.

Unadjusted energy prices rose sharply again, in May. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices gained 7.7% and 9.9% for the month, with an accompanying increase of 9.7% in unadjusted monthly-average retail-gasoline prices (Department of Energy). Further, PPI seasonal adjustments for energy costs turn positive in May.

While catch-up reporting and positive seasonal shifts should boost headline PPI inflation, again, the inverse-inflation reaction of shifting oil prices in the services sector is nonsensically offsetting. Where rising oil prices also are reflected usually in near-term falling margins (service-sector deflation), such should mute somewhat the energy-related inflation boost that otherwise would and should dominate the headline May PPI.

Along with added monthly inflation from wholesale food and "core" goods (everything but food and energy), a fair gain in the headline PPI still is a reasonable expectation.

Index of Industrial Production (May 2015). On Monday, June 15th, the Federal Reserve Board will release its estimate of the index of industrial production for May 2015. Early-expectations [MarketWatch] are for a headline increase of 0.2% in May, following a headline decline of 0.3% (-0.3%) in April. As seen in recent months, however, downside-reporting surprises remain likely in terms of headline monthly detail and/or prior-period revisions.

A flat-to-minus headline monthly reading is well within the scope of likely headline reporting, with an outright monthly contraction in May and/or significant downside revisions to prior reporting of recent months. Noted in the *Opening Comments*, the new production data should help set the stage for a second, consecutive quarterly decline in real GDP, following on top of the first-quarter GDP contraction. The new production detail remains a good bet to help dampen excessive growth expectations currently forming around likely second-quarter GDP reporting.

Residential Construction—Housing Starts (May 2015). The Census Bureau will release May 2015 residential construction detail, including housing starts, on Tuesday, June16th. 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, early-consensus forecasters are looking for decline of about 3.1% (-3.1%) [MarketWatch], offsetting somewhat the massively-overstated monthly gain in April. Even with a downside consensus, the numbers are a fair bet to disappoint expectations, with housing activity still suffering from unimproved consumer conditions. The broad, general pattern of down-trending stagnation almost certainly continued in May.

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. 723* and in the updated consumer liquidity section in the *Opening Comments*, there remains no chance of a near-term, sustainable turnaround in the housing market, until there is a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

Consumer Price Index—CPI (May 2015). The May 2015 CPI is scheduled for release on Thursday, June 18th, 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 0.5% [MarketWatch]. An inflation gain is likely, due to higher energy, food and "core" inflation (ex-food and energy), helped by a swing to the plus-side in monthly seasonal adjustments to gasoline prices.

The average gasoline price moved higher in May 2015, up by 9.69% for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). BLS seasonal adjustments to gasoline prices in May traditionally turn neutral-to-slightly-minus, leaving the headline, unadjusted gain in gasoline prices enough higher to contribute 0.3% to the headline CPI-U monthly inflation rate. With higher food and “core” (net of food and energy) inflation, the consensus expectations are not unreasonable.

Annual Inflation Rate. Year-to-year, CPI-U inflation would increase or decrease in 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. That happens to be the consensus expectation.

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