John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 729
May CPI, Real Retail Sales and Earnings, Consumer Liquidity, FOMC, GDP

June 18, 2015

Further Frustrating Fed Hopes of Raising Rates,
U.S. Economy Should Weaken Ahead

"New" Recession Remains in Play

Four Months of Flat-to-Down Real Earnings
Headed for a Second-Quarter Contraction

May Retail Sales Gain of 1.21% Was 0.76% After Inflation;
Sales Headed for Quarterly Gain; Annual Growth Signaled Recession

May Annual Inflation: 0.0% (CPI-U), -0.6% (CPI-W), 7.6% (ShadowStats)

PLEASE NOTE: The next regular Commentary, *scheduled for Tuesday, June 23rd, will cover May New Orders for Durable Goods and New- and Existing-Home Sales. A further* Commentary *on January 24th will cover the third estimate of, second revision to first-quarter 2015 GDP. Separately, a* Public Comment *on unemployment measurement is pending.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

The Fed Waffled Anew. Discussed in *Commentary No. 726*, a short-lived peak in happy economic news likely passed late last week. With it went the best opportunity the Fed would have for some time to boost interest rates, using the temporary cover of a strengthening economy. The Federal Open Market

Committee (FOMC) did not alter its policy yesterday (June 17th), losing that window of opportunity. One might surmise that the Fed still does not see a solid recovery in the U.S. economy. Aside from comments of concern by the Fed Chair, updated economic projections from Federal Reserve Board Members and Federal Reserve Bank Presidents downgraded real GDP projections for 2015 from a range of 2.3% to 2.7% as of March 2015 forecasts, to a range of 1.8% to 2.0% as of June 2015 forecasts.

The Fed can do little to spike U.S. economic growth. Where higher interest rates actually might be of some economic benefit, factors other than domestic economic strength affected the decision not to raise rates. Considerations likely included concerns as to the stability of the domestic- and global-financial systems and markets.

Separately, though quite likely related, the circumstance with Greece has been festering for years and appears close to a near-term climax. Whatever happens should not be an extraordinary shock to the system, given the amount of time that the various central banks and governments have had to prepare for any contingency. Still, elements of the unexpected can happen.

Shy of any near-term turmoil, a break-up or reorganization of the euro could offer a number of positive features for longer-range, global financial stability, as has been discussed here before. Circumstances will be addressed as they develop.

"New" Recession Will Continue to Unfold. Within the next two months, headline reporting and revisions to key, monthly economic series; and headline reporting and a benchmark revision to GDP should leave reported U.S. economic activity in a circumstance that will gain recognition as a formal recession. Specifically, real quarterly growth for both first- and second-quarter 2015 GDP should be in contraction. That situation is not a happy one for a Federal Reserve looking to get market and political approval for a rate hike.

The quotation marks are used around "new" in referencing the recession, because ShadowStats contends that the U.S. economy never recovered from the economic collapse (see detail in *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*).

First-Quarter 2015 GDP Revision. Noted in the *Week Ahead* section, the initial headline first-quarter 2015 GDP growth estimate of 0.2%, revised to a headline quarterly contraction of 0.7% (-0.7%) in last month's first revision. Early consensus for the second revision on June 24th is for some narrowing of the quarterly contraction, to an annualized decline of 0.4% (-0.4%) [per MarketWatch].

Such reflects some upside revisions to March detail, in the headline reporting of series such as May retail sales and May payroll employment. Indeed, recent headline data revisions touching first-quarter activity generally have been minimally on the plus-side, so some narrowing of the first-quarter's contraction is a reasonable expectation. Given the highly-leveraged nature of annualized quarterly growth rates, however, there is some risk of first-quarter activity actually revising to flat or minimally-positive growth.

Whatever comes out of the second revision to first-quarter activity also will be subject to an effective third revision, along with benchmark revisions to the GDP series on July 30th. That third revision also would reflect the benchmark revision to industrial production on July 21st, and two monthly revisions to trade-deficit detail on July 7th and July 30th. Generally, those updates should have negative implications for both first- and second-quarter real GDP growth.

At present, first- and second-quarter 2015 estimates of real GDP growth remain good bets to show back-to-back quarterly contractions, irrespective of the second revision to first-quarter growth.

Second-Quarter 2015 GDP Reporting. The initial estimate of second-quarter 2015 GDP growth is coincident with and in the context of the July 30th GDP benchmark revision. Look for downside reporting and revisions in the month or two ahead for the various housing statistics and retail sales. Along with two further rounds of trade-deficit deterioration, continued weakness in industrial production should help to pull real growth into negative territory for the current quarter.

With downside benchmark revisions already in place for retail sales, new orders for durable goods and the trade deficit, the broad-growth trend in the GDP series should be lowered in the July 30th GDP benchmark revision. That also should reduce the respective growth rates in the first- and second-quarter 2015 numbers, which will be revised and/or released at the same time.

Today's Missive (June 18th). The balance of today's *Opening Comments* concentrates on the detail from the headline reporting of the May 2015 CPI, the related real retail sales and earnings series and updated consumer conditions.

The *Hyperinflation Watch* section includes the three graphs of the gold price, versus the Swiss franc, oil and silver and related comments that typically accompany the CPI-related *Commentaries.* There has been a minor revision to the *Hyperinflation Outlook Summary*.

The *Week Ahead* section provides a preview of next week's releases of May New Orders for Durable Goods, New- and Existing-Home Sales and the second revision to first-quarter GDP.

Consumer Price Index (CPI)—May 2015—Annual CPI-U Was "Unchanged" for Fifth Month of No Inflation; Stronger Annual Inflation Looms in June. May 2015 CPI-U inflation rose month-to-month by 0.44%, just shy of consensus expectations of a 0.5% headline gain [MarketWatch, Bloomberg]. Such was the fourth consecutive positive month-to-month inflation reading, following the "deflation" created by declining gasoline prices. Closing in on zero, however, year-to-year CPI-U inflation was pronounced, "unchanged," by the Bureau of Labor Statistics (BLS) in May, the fifth consecutive month of no positive annual inflation.

Both monthly and annual inflation readings should be positive in June 2015, due to the continued rise in gasoline prices and less-negative seasonal adjustments to same. Also, going forward, year-to-year inflation comparisons will be going against increasingly soft 2014 inflation numbers in the second half of the year, reflective of year-ago weakness in oil and gasoline prices.

CPI-U. The headline, seasonally-adjusted May 2015 CPI-U rose month-to-month by 0.44%, following a headline April gain of 0.10%. For the first time this calendar year, energy-inflation seasonal adjustments did not skew the aggregate seasonals so heavily. The May 2015 CPI-U rose by a not-seasonally-adjusted, 0.51% month-to-month, following an unadjusted 0.20% gain in April.

Not seasonally adjusted, May 2015 year-to-year inflation for the CPI-U was "unchanged," down by 0.04% (-0.04%) at the second decimal point, following an annual decline of 0.20% (-0.20%) in April 2015.

CPI-W. The May 2015 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose month-to-month by 0.53% (up by 0.60% unadjusted), versus an adjusted gain of 0.07% (up by 0.20% unadjusted) in April.

Unadjusted, May 2015 year-to-year CPI-W inflation fell by 0.56% (-0.56%), narrowed somewhat from the annual decline of 0.82% (-0.82%) in April 2015.

Chained-CPI-U. Initial reporting of unadjusted year-to-year inflation for the May 2015 C-CPI-U was an annual contraction of 0.32% (-0.32%) in May 2015, versus an annual contraction of 0.58% (-0.58%) in April 2015.

Alternate Consumer Inflation Measures. The ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 3.5% in May 2015, versus 3.4% in April 2015. The May 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 7.6% year-to-year, versus 7.4% in April 2015.

Real Retail Sales—May 2015—Rebound Likely to Fade in June. Not adjusted for inflation, headline nominal retail sales rose by 1.21% in May 2015, following a revised gain of 0.24% in April. Year-to-year growth in May 2015 was 2.65%, versus a revised 1.51%, all as detailed in *Commentary No. 726*.

Headline Reporting of Real Retail Sales. Based headline monthly inflation of 0.44% in the May 2015 CPI-U, and in the context of a 0.10% gain in the April 2015 CPI-U, May real retail sales rose month-to-month by a headline 0.76%, versus a revised 0.13% gain in April.

Where first-quarter 2015 real retail sales contracted at a revised annualized pace of 1.02% (-1.02%), the annualized pace of quarterly growth for second-quarter 2015 would be a positive 4.61%, based solely on reporting for April and May. While June 2015 real retail sales likely will slow sharply versus May, positive quarterly growth in second-quarter real retail sales should survive the June reporting.

Real Year-to-Year Growth Remained Near Recession Signal. With seasonally-adjusted headline year-to-year CPI-U inflation "unchanged" (up by 0.03%) in May 2015, and down by 0.11% (-0.11%) in April 2015, year-to-year change in May 2015 real retail sales was 2.62%, versus a revised 1.63% annual gain in April 2015.

In normal economic times, annual real growth at or below 2.0% would signal an imminent recession. That signal had been given otherwise, recently, and was renewed in April 2015, indicating a deepening downturn. Although higher than in April, level of real annual growth in May 2015 still is consistent with that circumstance.

Discussed in the later *Consumer Liquidity* section, the primary issues constraining headline retail sales activity remain 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.

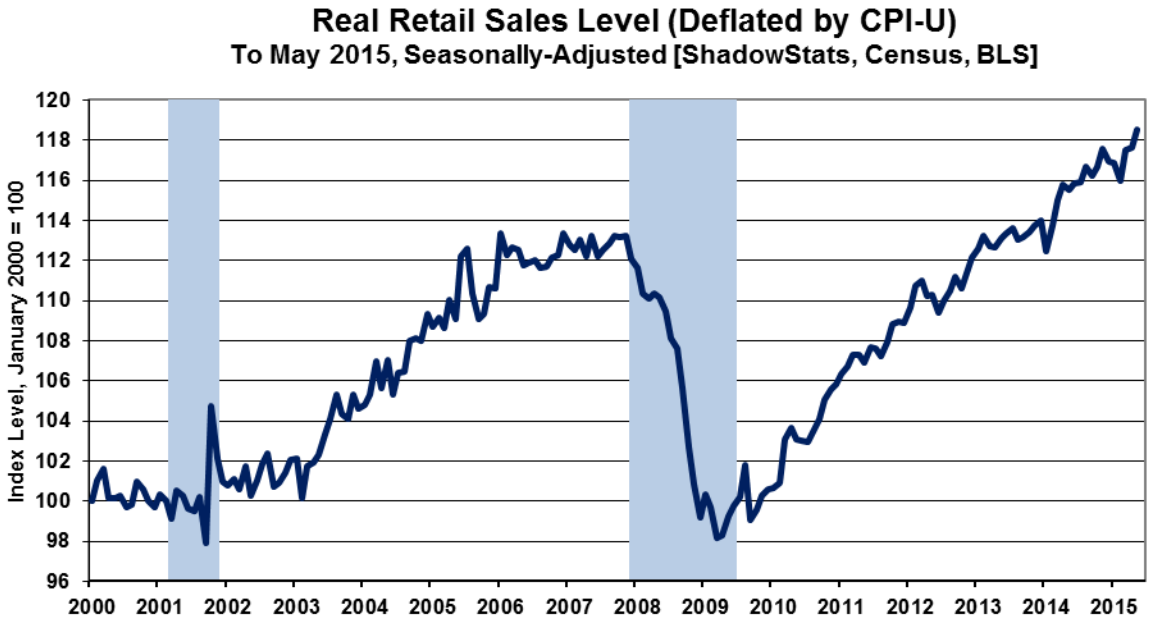
As official consumer inflation moves higher in the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by the general pattern of real earnings difficulties highlighted in the next sub-section—these data should resume trending meaningfully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

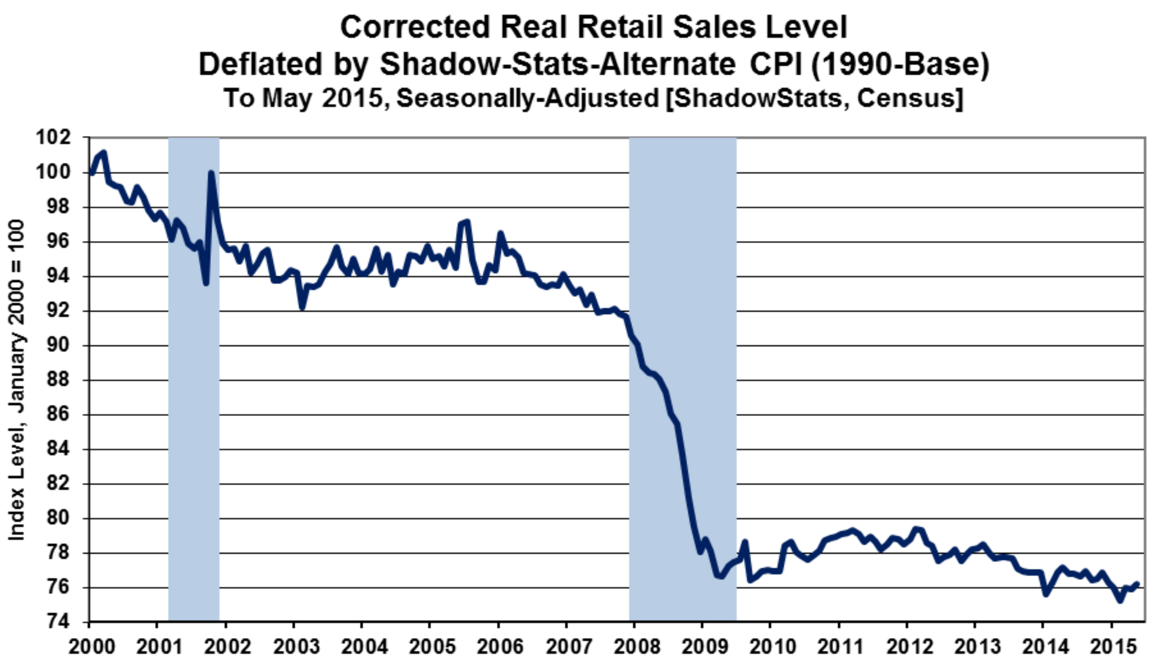
Real Retail Sales Graphs. Graphs of headline activity level and annual growth in real retail sales are found in the *Reporting Detail* section. As shown also in the next graph following here, headline monthly activity turned lower for the third month, in February 2015, showing signs of faltering sales. March showed some rebound, but that quarter remained in contraction. April was soft, but headline activity bounced back in May. Year-to-year activity (see *Reporting Detail*), 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. It fell back to two-percent in February and March 2015, and below two-percent in April 2015. Annual growth bounced higher in May 2015, but, again, the recession signal remains in play.

Corrected Real Retail Sales—May 2015**.** The apparent "recovery" in headline real retail sales generally continued into late-2014, although headline reporting turned down in December 2014, and into first-quarter 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—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 five months of 2015, allowing for the occasional and temporary upside blips.





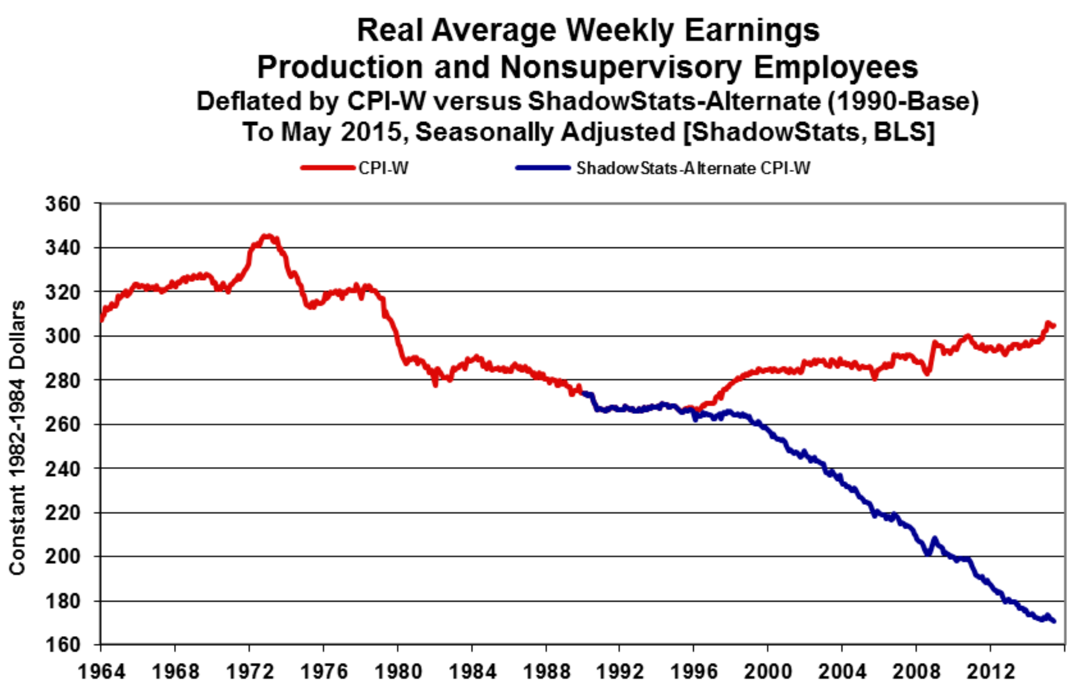
Real Average Weekly Earnings—May 2015—"Unchanged" Month-to-Month, Headed for Second-Quarter Contraction. Coincident with today's reporting of a seasonally-adjusted monthly gain of 0.5% (0.53% at the second decimal point) in the May 2015 CPI-W, the BLS also published real average weekly earnings for the month of May (deflated by CPI-W). The gain in the May CPI-W followed a monthly gain of 0.1% (0.07% at the second decimal point) in the April 2015 inflation measure.

Quarterly Outlook. Based on the April and May reporting of real earnings for both the "all employee" and the "production and nonsupervisory employees" categories, real earnings appeared headed for a quarterly contraction in second-quarter 2015. With both series, first-quarter real growth had been spiked by negative inflation generated by falling gasoline prices.

For all private employees on nonfarm payrolls, second-quarter 2015 real earnings (deflated by the CPI-U) were on track for an annualized contraction of 1.00% (-1.00%), versus an annualized gain of 5.56% in first-quarter 2015. For the production and nonsupervisory employees, the second-quarter 2015 (deflated by the CPI-W) was on track for an annualized quarter-to-quarter contraction of 1.02% (-1.02%) in real earnings, versus a 4.61% annualized gain in first-quarter 2015.

Monthly Detail. 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 0.049% at the third decimal point, rounding to 0.0%). That followed a revised April decline of 0.23% (-0.23%), and an unrevised decline of 0.30% (-0.30%) in March 2015. The April revision fully reflected regular BLS surveying and seasonal-factor instabilities as to hours and earnings. Before inflation adjustment, nominal May earnings rose by 0.6% in the month, April earnings fell by a revised 0.2% (-0.2%), and March earnings were unrevised at unchanged.

Year-to-year and seasonally-adjusted, May 2015 real average weekly earnings showed a gain of 2.54%, versus a revised 2.33% in April 2015, versus an unrevised gain of 2.45% in March 2015. Unadjusted, year-to-year changes were 2.37% in May, a revised 2.44% in April and a revised 2.56% in March. 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 particularly in first-quarter 2015 inflation detail that had been depressed by falling gasoline prices.



The accompanying graph of this series plots 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 to May detail.

Consumer Liquidity Issues Prevent Meaningful Economic Improvement. Updating *Commentary No. 723* of May 29th, and as otherwise discussed regularly in these *Commentaries* (see detail in *No. 692 Special Commentary: 2015 - A World Out of Balance*), structural liquidity woes have constrained domestic economic activity, severely, since before the Panic of 2008. Never recovering in the post-Panic era, limited income, credit and a faltering consumer outlook have eviscerated business activity that feeds off the financial health and liquidity of consumers.

Without real (inflation-adjusted) growth in household income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable economic growth. Impaired consumer liquidity and its direct restraints on consumption have been responsible for much of the economic turmoil of the last eight-plus years, driving the housing-market collapse and ongoing stagnation in consumer-related real estate and construction activity, as well as constraining real retail sales activity and the related, personal-consumption-expenditures category of the GDP. Together, those sectors account for more than 70% of aggregate U.S. GDP activity.

Recently-released readings on early-June consumer sentiment and first-quarter 2015 household-sector debt outstanding are updated. Also shown are the most-recent readings on monthly consumer confidence, real median-household income and consumer credit outstanding, all as previously published. Underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. There has been no economic recovery, and there remains no chance of meaningful, broad economic growth, without a fundamental upturn in consumer- and banking-liquidity conditions.

Consider the following graphs. The first graph shows monthly real median household income through April 2015, as reported by www.SentierResearch.com on May 28th. The income series has continued in low-level stagnation, remaining off, but still near its cycle low, despite recent up-trending in month-to-month volatility. Where negative inflation boosts the level of real growth relative to nominal growth, recent relative "strength" in the series largely was fed, temporarily, by gasoline-price-driven, headline month-to-month contractions in CPI-U reporting.

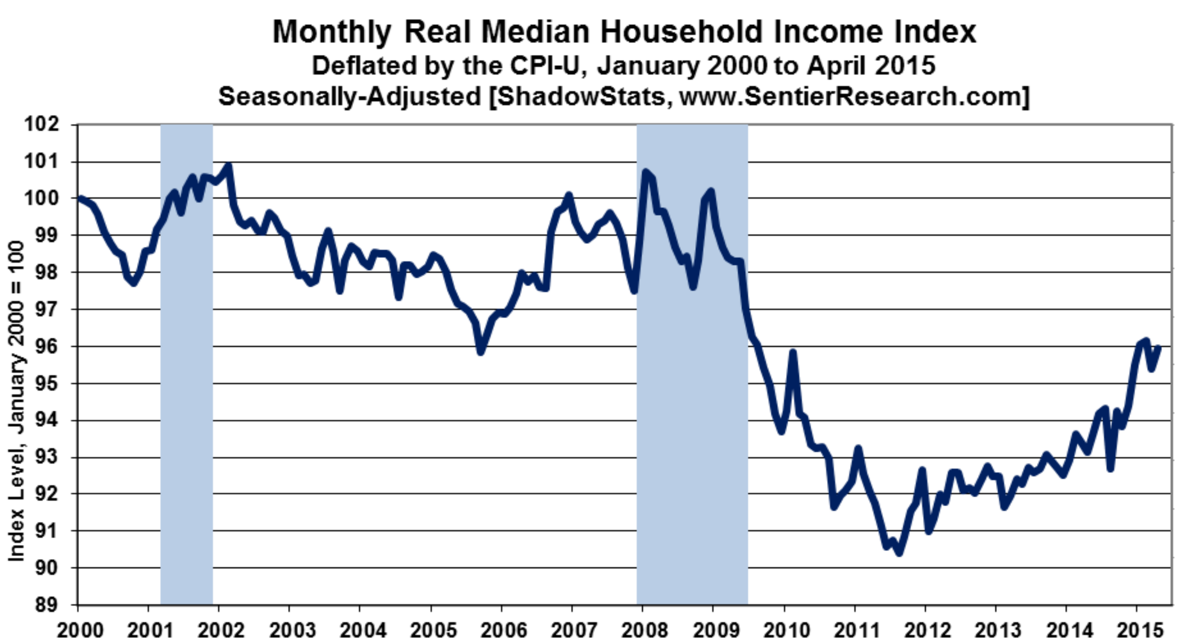
The renewed downturn in March 2015 in median household income reflected the headline CPI-U rising by 0.2% in March 2015, with the resulting headline decline in real median household income (deflated by the CPI-U) a statistically-significant monthly drop of 0.8% (-0.8%). Before inflation adjustment, the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

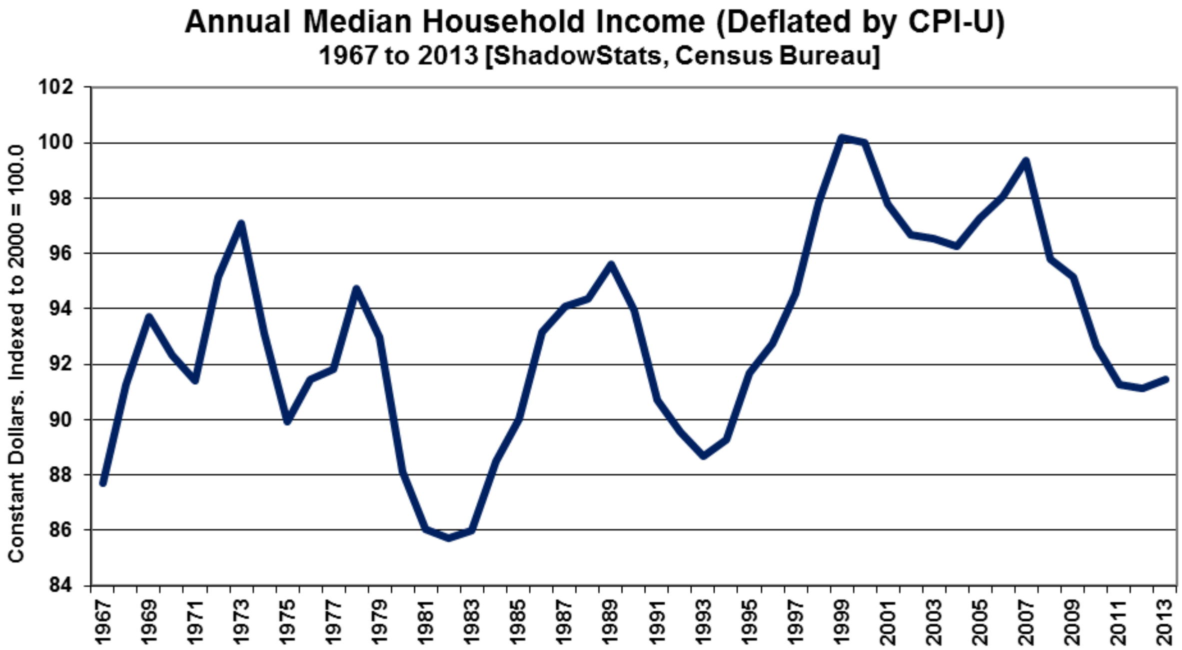
In April, with the CPI-U up by just 0.1%, real median household income was up by a statistically-significant 0.6%, with nominal income up by 0.7% in the month. With headline CPI-U up by 0.4% in June 2015, and given the pattern of change in real earnings shown in the last graph of the previous section, the May 2015 real median household income number is a fair bet for headline monthly stagnation or downturn.

Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash has been used to pay down unsustainable debt, not to fuel new consumption. Relief from low-priced gasoline should prove increasingly fleeting, as the U.S. dollar resumes its decline and petroleum prices continue to spike anew.

On a monthly basis, when headline GDP purportedly started its solid economic recovery in mid-2009, household income plunged to new lows and has yet to recover its level seen during the formal recession, or the pre-recession highs either for the 2007 recession or the 2001 recession.

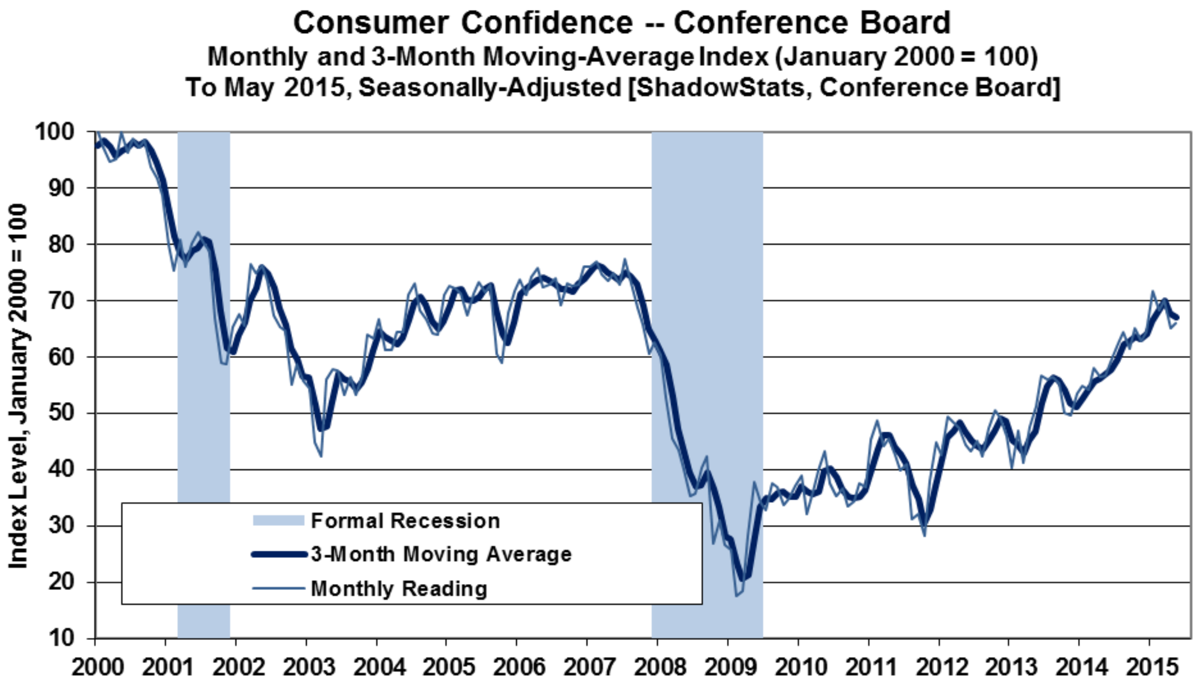
Shown in the second graph, the same series, published by the Census Bureau on an annual basis, deflated by headline CPI-U, confirmed that in 2013—the latest-available annual data—annual real median household income continued to hold at a low level of activity. In historical perspective, 2011, 2012 and 2013 income levels were below levels seen in the late-1960s and early-1970s. Such indicates the long-term nature of the evolution of the major structural changes squeezing consumer liquidity and impairing the current economy. Further discussion of these issues is found in *No. 692 Special Commentary*, *Commentary No. 658*, and in *2014 Hyperinflation Report—The End Game Begins – First Installment Revised* and *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*.

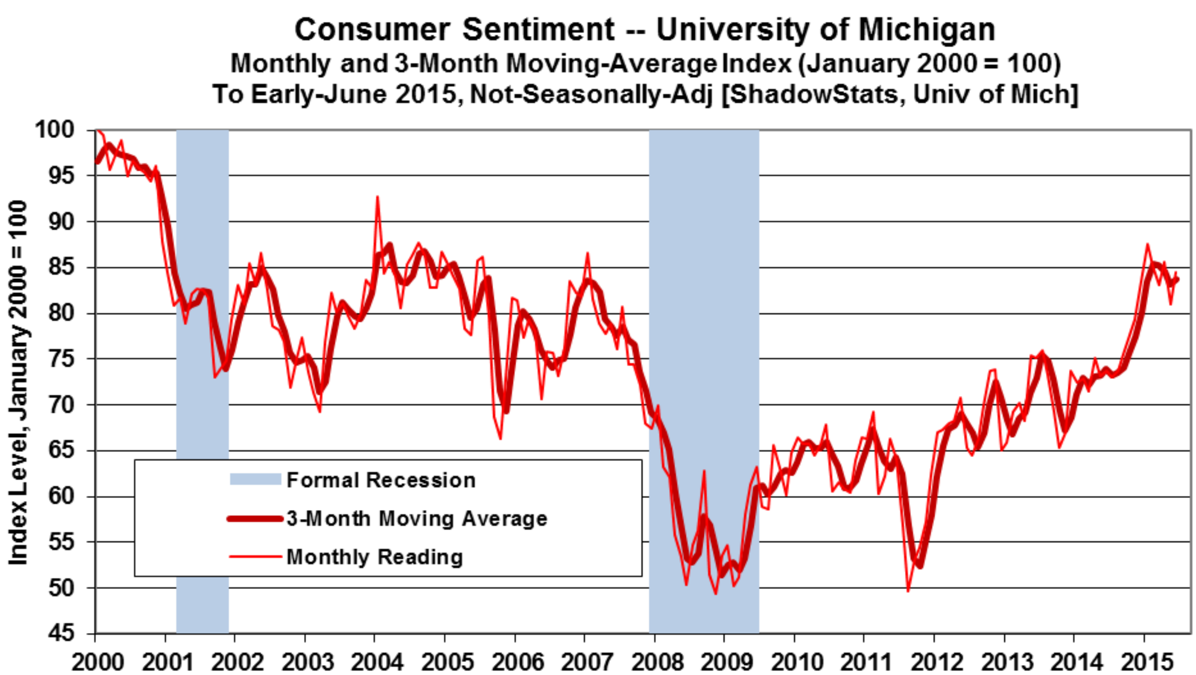


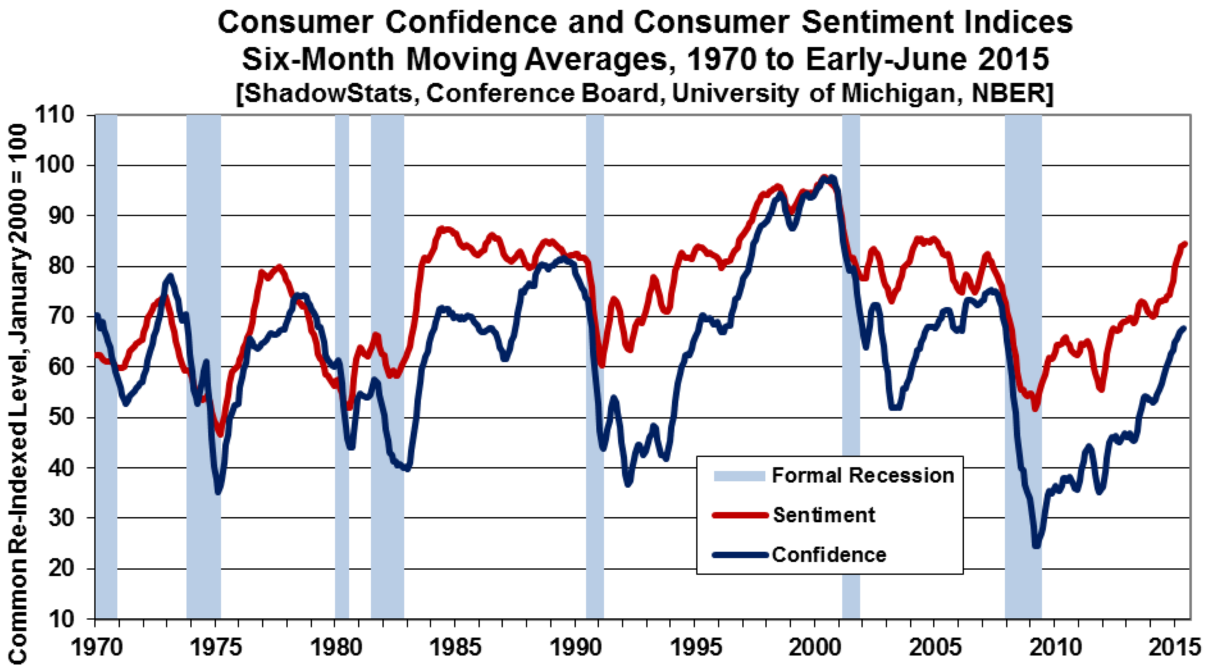


The next three graphs reflect the latest headline activity in consumer confidence and sentiment. The Conference Board's Consumer Confidence Index (updated on May 26th) and the University of Michigan's Consumer Sentiment Index (updated June 12th) respectively notched higher and lower for the full month of May 2015, with Sentiment up in early-June. Both series continued to show more-subdued readings in their three-month moving-average readings. The confidence and sentiment series tend to mimic the tone of headline economic reporting in the press, and often are highly volatile month-to-month, as a result. Despite a short-lived round of economic euphoria in the popular press, an increasingly-negative toll from headline economic reporting should be seen in ongoing hits to both the confidence and sentiment readings in the months ahead.

Smoothed for the irregular, short-term volatility, however, the two series remain at levels seen typically in recessions. Suggested in the third graph—plotted for the last 40 years—the latest readings of confidence and sentiment generally have not recovered levels that preceded any of the formal recessions of the last four decades. Generally, the consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth that would rival the recent booming, headline GDP gains purportedly seen in mid-2014.


Consumer Confidence -- Conference Board
Monthly and 3-Month Moving-Average Index (January 2000 = 100)
To May 2015, Seasonally-Adjusted [ShadowStats, Conference Board]
Index Level, January 2000 = 100
100
90
80
70
60
50
40
30
20
10
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015
Formal Recession
3-Month Moving Average
Monthly Reading


Consumer Sentiment -- University of Michigan
Monthly and 3-Month Moving-Average Index (January 2000 = 100)
To Early-June 2015, Not-Seasonally-Adj [ShadowStats, Univ of Mich]
Index Level, January 2000 = 100
100
95
90
85
80
75
70
65
60
55
50
45
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015
Formal Recession
3-Month Moving Average
Monthly Reading

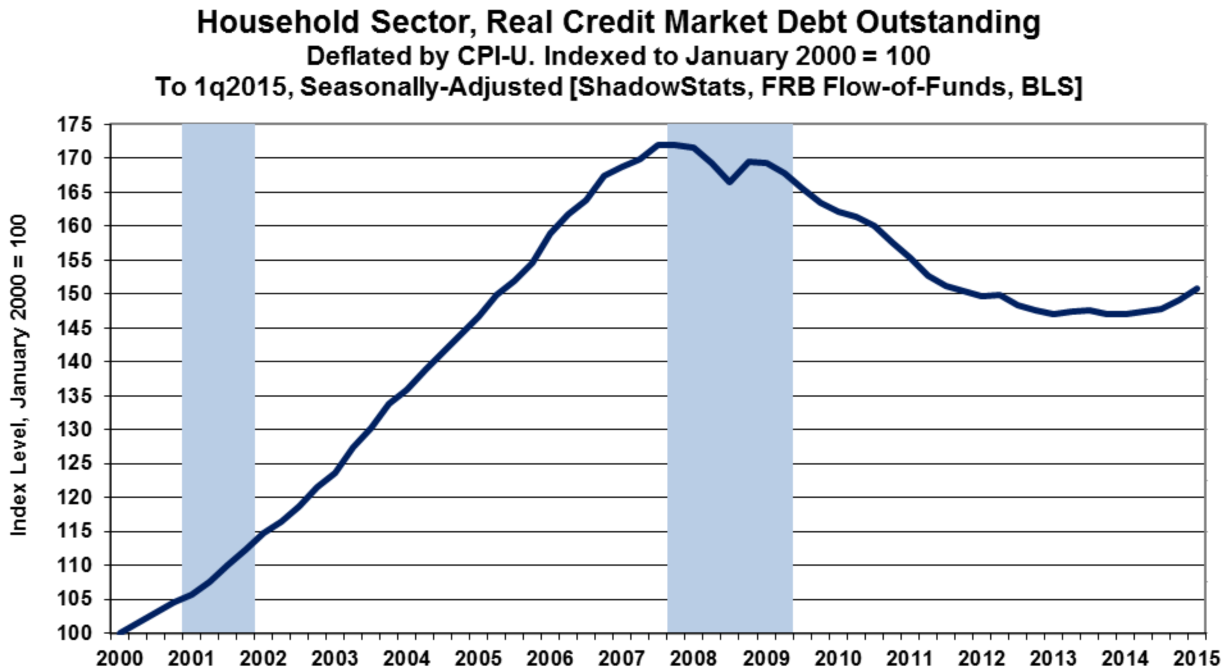


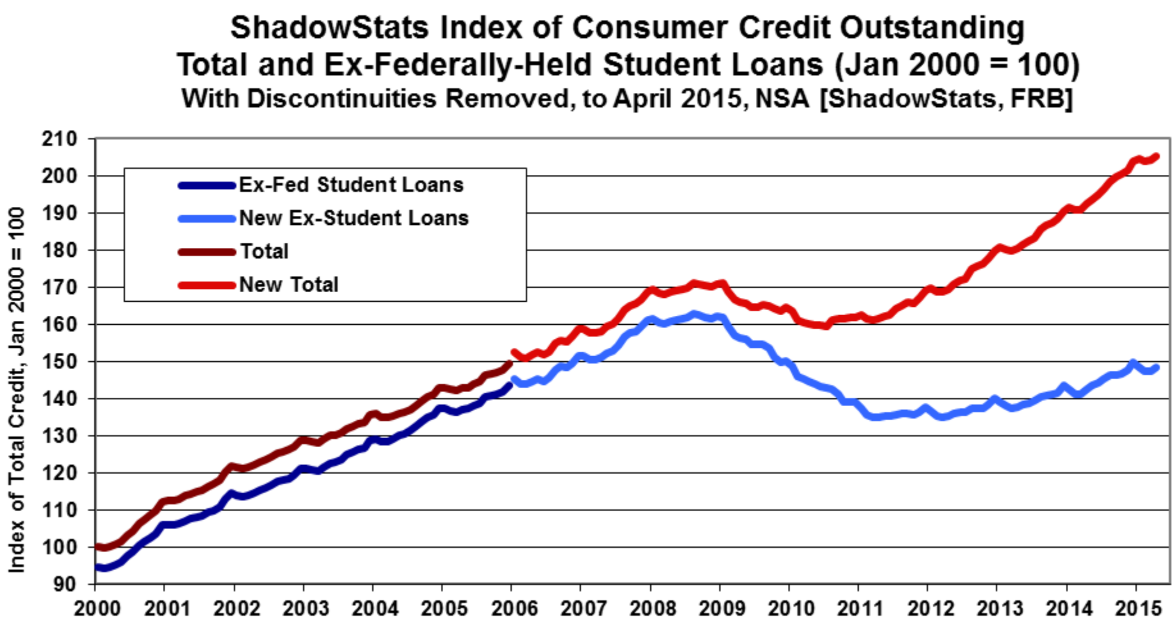
The final two graphs in this section address consumer borrowing. Debt expansion can help to make up for a shortfall in income growth. Shown in the first graph of *Household Sector, Real Credit Market Debt Outstanding*, household debt declined in the period following the Panic of 2008, and it has not recovered. The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. Updated through first-quarter 2015, the graph reflects the most-recent detail available from the Federal Reserve's flow-of-funds data, published June 11th.

The slight upturn seen in the series in the two most-recent quarters, as with the median household income survey, was due partially to gasoline-price-driven, negative CPI inflation, which has begun to pass out of the system. It also reflects surging student loans, as shown in the next graph.

Updated through April 2015, the graph of monthly Consumer Credit Outstanding is a subcomponent of the prior graph on real household sector debt, but it is not adjusted for inflation. Post-2008 Panic, outstanding 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. The nominal level of Consumer Credit Outstanding (ex-student loans) has not rebounded or recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis.

Again, consumer liquidity woes remain the basic constraint on broad economic activity in the United States, which remains heavily consumer oriented. Without real growth in income and/or debt expansion and willingness to take on new debt, and with consumer confidence and sentiment at levels consistent with a significant portion of consumers under financial stress, there has been no basis for a sustainable economic expansion since the Panic of 2008. There are no prospects for a recovery in the near term.





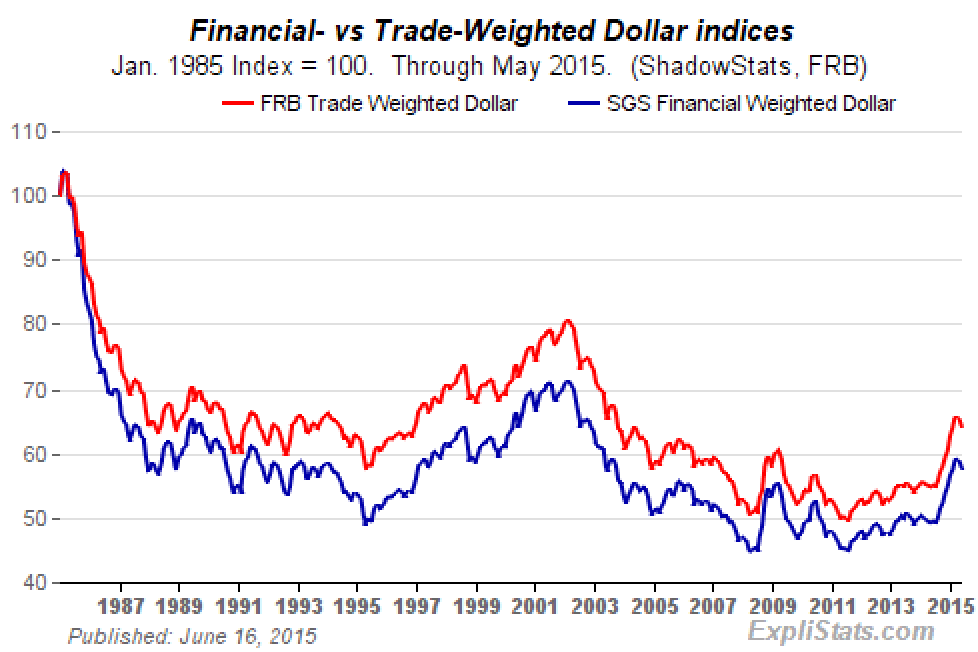
[The **Reporting Detail** *section includes extended detail on the CPI and related series.]*

HYPERINFLATION WATCH

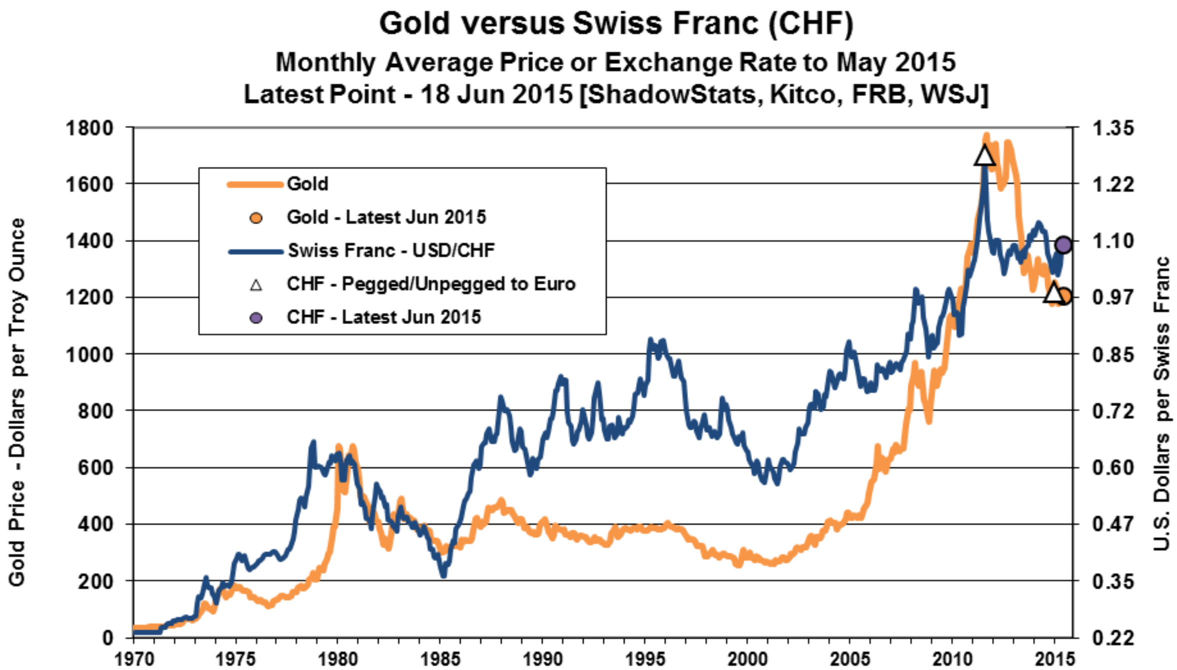
GOLD GRAPHS

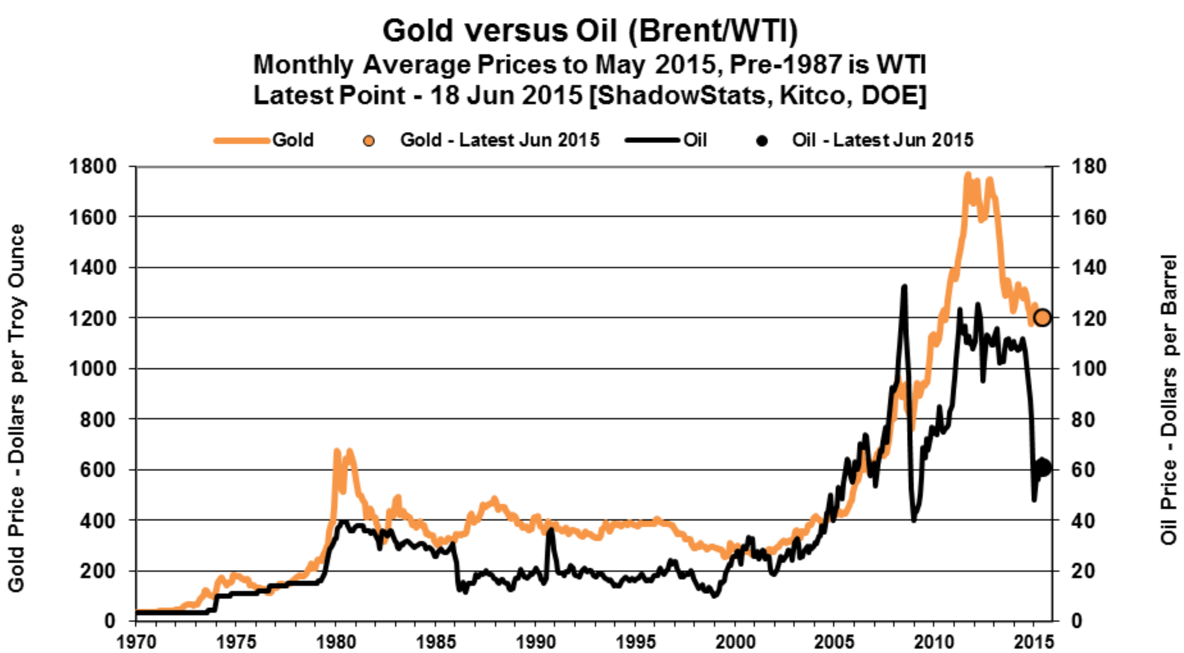
Monthly Gold Graphs and Related Comments. The three traditional gold graphs that usually accompany the CPI *Commentaries* follow at the end of this section. The "Latest June" point in each graph is subsequent to the June 17th FOMC meeting, reflecting late-afternoon New York prices for June 18th. These graphs also update the *Nominal Markets* section of *No. 692*. When the developing sell-off in the U.S. dollar gains more-broadly-based momentum, offsetting sharp rallies should be seen increasingly, on a coincident basis, for gold and silver prices, as well as for oil prices.

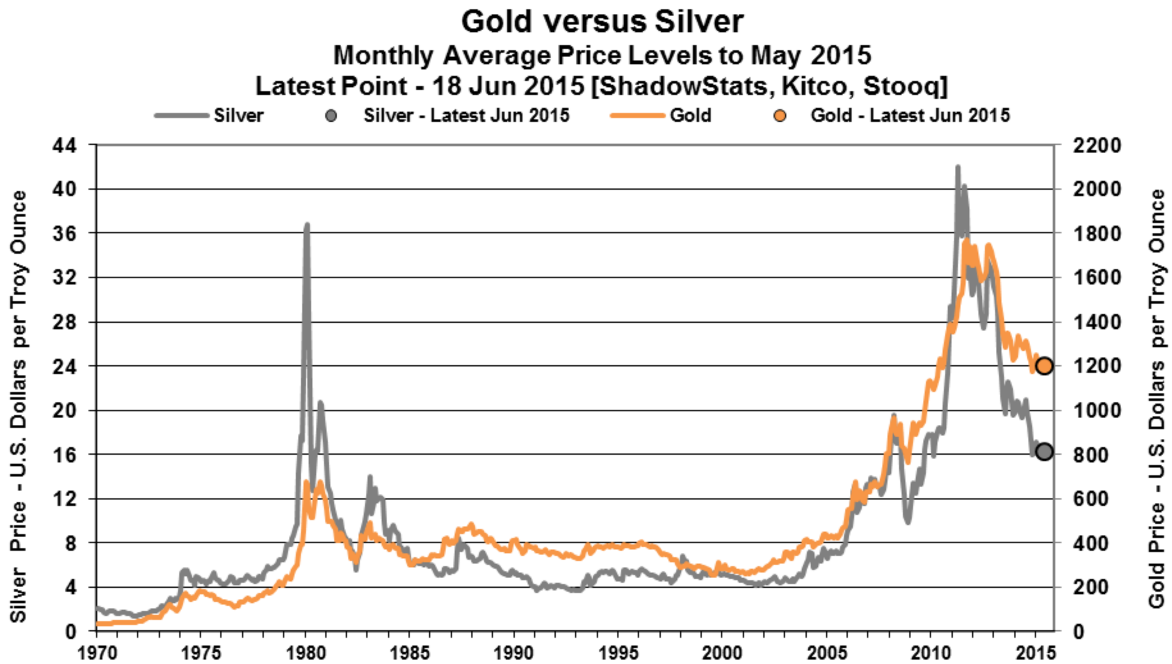
Dollar Strength Still Distorts the Financial Markets. Discussed extensively in *No. 692*, continuing strength in the exchange-rate value of the U.S. dollar against other major Western currencies had been, and tentatively still remains the primary distorting element in various financial markets. In the last several months, however, U.S. dollar strength appears to have hit its near-term peak, pulling back as false strength in headline domestic economic activity began to evaporate, and as the Fed has continued to waffle in its purportedly still-pending, interest rate hikes. Such can be seen in the accompanying, updated graph on the trade-weighted U.S. dollar (Federal Reserve, major currencies weighted by relative trade activity), and the financial-weighted U.S. dollar (ShadowStats, major currencies weighted by relative volume in global foreign-exchange transactions).



The dollar's story continues to evolve unsteadily, but market recognition of the onset of a "new" recession still should fall into place around the first-estimate of second-quarter 2015 GDP, along with likely, heavily-negative benchmark revisions to the GDP series, on July 30th. A "new" recession still is unexpected and should have massive, negative impact on the U.S. dollar's exchange rate, when market expectations shift.







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 and silver prices relatively stagnant. The accompanying graphs reflect those developments. Physical gold and silver remain the primary hedges against all the financial and inflationary crises ahead.

HYPERINFLATION OUTLOOK SUMMARY

Broad Outlook Is Unchanged: Economy Remains in Downturn; Dollar Faces Massive Decline with Ongoing Implications for a Hyperinflation Crisis. This *Hyperinflation Outlook Summary* has had a minor revision from the prior version, tied to yesterday's FOMC meeting (change has been underlined). 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 a great hyperinflationary crisis. 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 covert 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 the *Opening Comments* of *Commentary No. 726*. Such 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 the stock and currency markets pretty much already have anticipated such action in their pricing, the big market moves ahead should come from areas such as 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. These circumstances should continue to unwind what had been 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 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; and 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 surfaced 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, and 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 would move to normalize interest rates (again, see *Opening Comments* of *Commentary No. 726*), if it could get away with it. The FOMC meeting of June 17th apparently concluded that the Fed could not get away with it (see today's *Opening Comments*).

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). Such throws off estimates of U.S. Treasury funding needs and estimates as to how long the Treasury effectively can dodge the limits of the recently reimposed debt ceiling. Current fiscal "good news" remains from cash-based, not GAAP-based and accounting projections and is heavily impacted by changes in business activity.

The economy has not recovered; the banking system is far from stable and solvent; and the Federal Reserve and the federal government still have no way out. Significant banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs will be provided, as needed, by the Fed, under the ongoing political cover of a weakening economy—a renewed, deepening contraction in business activity. The Fed has no choice. Systemic collapse is not an option for the Board of Governors. This circumstance simply does not have a happy solution.

Accordingly, any significant, renewed market speculation as to an added round of Federal Reserve quantitative easing, QE4, may become a major factor behind crashing the dollar and boosting the price of gold. The Fed has strung out its options for propping up the system as much as it thought it could, with continual, negative impact on the U.S. economy. The easings to date, however, appear to have been largely a prop to the increasingly unstable equity markets.

Again, in the event of a QE4, any resulting renewed boost to U.S. equities would be a fleeting illusion, at least in terms of real value (purchasing power of the dollar). Such gains would tend to be losses, in real terms, with the stocks valued in terms of Swiss francs, for example, or valued against what would become a rapidly-increasing pace of domestic U.S. inflation.

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, increasingly 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 control 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 details in the *Opening Comments* section). 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 operates 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 fiscal and economic 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

CONSUMER PRICE INDEX—CPI (May 2015)

Headline May CPI-U Rose by 0.4% for Fourth Monthly Gain; Annual Inflation Was "Unchanged" for Fifth Month of No Inflation. May 2015 CPI-U inflation rose month-to-month by 0.44%, just shy of consensus expectations of a 0.5% headline gain [MarketWatch, Bloomberg]. Such was the fourth consecutive positive month-to-month inflation reading, following the "deflation" created by declining gasoline prices. Closing in on zero, year-to-year CPI-U inflation was pronounced "unchanged" by the Bureau of Labor Statistics (BLS), the fifth consecutive month of no positive annual inflation.

Both monthly and annual inflation readings should be positive in June 2015, thanks to the continued rise in gasoline prices and less-negative seasonal adjustments to same. Also, going forward, year-to-year inflation comparisons will be going against increasingly soft inflation numbers in the second half of the year, reflective of year-ago weakness in oil and gasoline prices.

A sustained increase in energy prices would 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. Selling pressure against the U.S. dollar should intensify and should 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.

[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*. That *Public Commentary* 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, June 18th, that headline, seasonally-adjusted May 2015 CPI-U rose month-to-month by 0.4%, up by 0.44% at the second decimal point, following a headline April gain of 0.1%, up by 0.10% at the second decimal point. Adjusted headline inflation again was constrained in May, by seasonal factors. On a not-seasonally-adjusted basis, the May 2015 CPI-U rose by 0.51% month-to-month, following an unadjusted 0.20% gain in April.

For the first time this calendar year, energy-inflation seasonal adjustments did not skew the aggregate seasonals so heavily. For May 2015, the BLS reported unadjusted gasoline prices up by 10.54% for the month, versus a 9.69% gain per the Department of Energy. Seasonally-adjusted gasoline prices rose by 10.36% in May, per the BLS.

<u>Major CPI-U Groups</u>. Encompassed by the seasonally-adjusted gain of 0.44% in the May 2015 CPI-U [up by an unadjusted 0.51%], aggregate May energy inflation rose for the month by a seasonally-adjusted 4.33% [up by an unadjusted 5.21%]. In the other major CPI sectors, adjusted May food inflation was "unchanged" at 0.02% [up by 0.04% unadjusted], while adjusted "core" inflation rose by 0.15% (rounds to 0.1%) [up by 0.13% unadjusted] for the month. Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 1.72% in May 2015, versus 1.81% in April 2015.

<u>Year-to-Year CPI-U</u>. Not seasonally adjusted, May 2015 year-to-year inflation for the CPI-U was "unchanged," down by 0.04% (-0.04%) at the second decimal point, following a headline annual decline of 0.2% (-0.2%), down by 0.20% (-0.20%) at the second decimal point in April 2015.

Year-to-year, CPI-U inflation would increase or decrease in next month's June 2015 reporting, dependent on the seasonally-adjusted monthly change, versus the adjusted, headline 0.17% monthly inflation gain for June 2014. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for June 2015, the difference in June's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the May 2015 negative annual inflation rate of 0.04% (-0.04%). Headline monthly inflation of roughly 0.2% would be needed in June 2015 in order to push the headline annual CPI-U inflation rate minimally into positive territory at that time.

Gasoline prices in June have continued to increase, and are on track to push the aggregate annual CPI-U inflation into positive territory in June, for the first time since December 2014.

CPI-W. The May 2015 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose month-to-month by 0.53% (up by 0.60% unadjusted), versus an adjusted gain of 0.07% (up by 0.20% unadjusted) in April.

Year-to-Year CPI-W. Unadjusted, May 2015 year-to-year CPI-W inflation fell by 0.56% (-0.56%), narrowed somewhat from the annual decline of 0.82% (-0.82%) in April 2015.

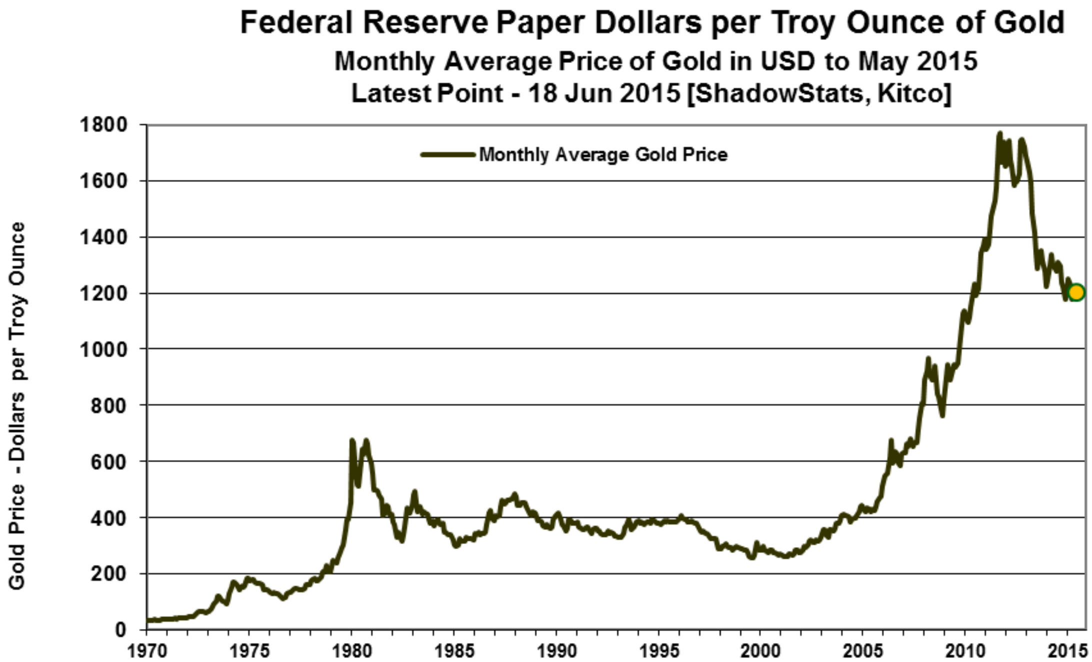
Chained-CPI-U. Initial reporting of unadjusted year-to-year inflation for the May 2015 C-CPI-U was an annual contraction of 0.32% (-0.32%) in May 2015, versus an annual contraction of 0.58% (-0.58%) in April 2015. See the discussions in prior CPI *Commentary No. 721* and in the opening notes in the *CPI Section* of *Commentary No. 699*, as to recent changes in the series. More-frequent revisions and earlier finalization of monthly detail are designed to groom the C-CPI-U series as the new Cost of Living Adjustment (COLA) index of choice for the budget-deficit-strapped federal government.

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

The May 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 7.6% (7.55% for those using a second decimal point) year-to-year, versus 7.4% in April 2015.

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 changes there broadly are parallel with and of the same magnitude of change as estimated by the BLS, when a given methodology was changed. The ShadowStats estimates are adjusted on an additive basis for the cumulative impact on the annual inflation rate of the 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 since 1980 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. For example, the BLS does not consider more-frequent weightings of the CPI series to be a change in methodology. Yet that change has had the effect of reducing headline inflation from what it would have been otherwise (See Public Commentary on Inflation Measurement *for further details.)*



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

CPI-U: GOLD at $2,598 per Troy Ounce, SILVER at $151 per Troy Ounce
ShadowStats: GOLD at $11,882 per Troy Ounce, SILVER at $691 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 $2,598 per troy ounce, based on May 2015 CPI-U-adjusted dollars, and $11,882 per troy ounce, based on May 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 May 2015 CPI-U inflation, the 1980 silver-price peak would be $151 per troy ounce and would be $691 per troy ounce in terms of May 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—May 2015—Rebound Likely to Fade in June. Not adjusted for inflation, headline nominal retail sales rose by 1.21% in May 2015, following a revised gain of 0.24% [previously unchanged at 0.00%] in April. Year-to-year growth in May 2015 was 2.65%, versus a revised 1.51% [previously up by 0.87%], all as detailed in *Commentary No. 726*.

Headline Reporting of Real Retail Sales. Based on today's (June 18th) reporting of headline monthly inflation of 0.44% in the May 2015 CPI-U, and in the context of a 0.10% gain in the April 2015 CPI-U, May real retail sales rose month-to-month by a headline 0.76%, versus a revised 0.13% in April.

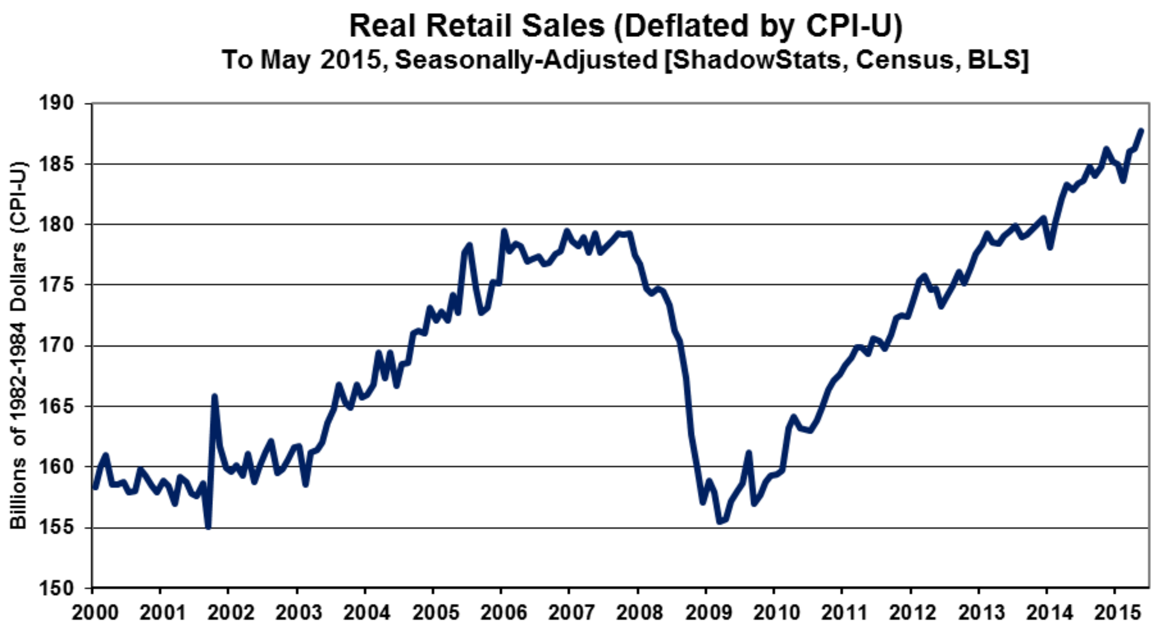
Where first-quarter 2015 real retail sales contracted at a revised annualized pace of 1.02% (-1.02%) [previously down by 1.56% (-1.56%)], the annualized pace of quarterly growth for second-quarter 2015 would be a positive 4.61%, based solely on reporting for April and May. While June real retail sales should slow sharply versus May, positive quarterly growth in second-quarter real retail sales most likely will survive the June reporting.

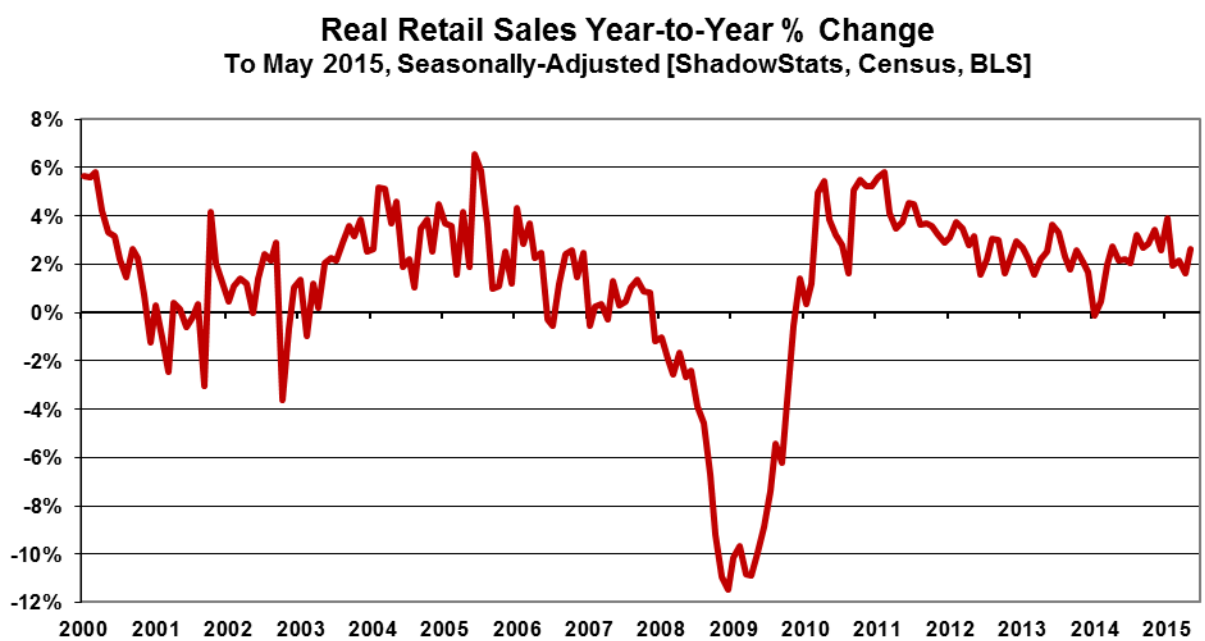
Real Year-to-Year Growth Remained Near Recession Signal. With seasonally-adjusted headline year-to-year CPI-U inflation "unchanged," up by 0.03% in May 2015, and down by 0.11% (-0.11%) in April 2015, year-to-year change in May 2015 real retail sales was 2.62%, versus a revised 1.63% (previously 0.99%) annual gain in April 2015.

In normal economic times, annual real growth at or below 2.0% would signal an imminent recession. That signal had been given otherwise, recently, and was renewed in April 2015, indicating a deepening downturn. Although higher than in April, level of real annual growth in May 2015 still is consistent with that circumstance. The second and fourth graphs following show the latest headline annual real growth in retail sales.

Separately, discussed and detailed in the *Opening Comments* section, the primary issues constraining headline retail sales activity remain 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 resume trending meaningfully lower, in what shortly should gain recognition as a formal "new" or double-dip recession.


Real Retail Sales (Deflated by CPI-U)
To May 2015, Seasonally-Adjusted [ShadowStats, Census, BLS]
Billions of 1982-1984 Dollars (CPI-U)
190
185
180
175
170
165
160
155
150
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015


Real Retail Sales Year-to-Year % Change
To May 2015, Seasonally-Adjusted [ShadowStats, Census, BLS]
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
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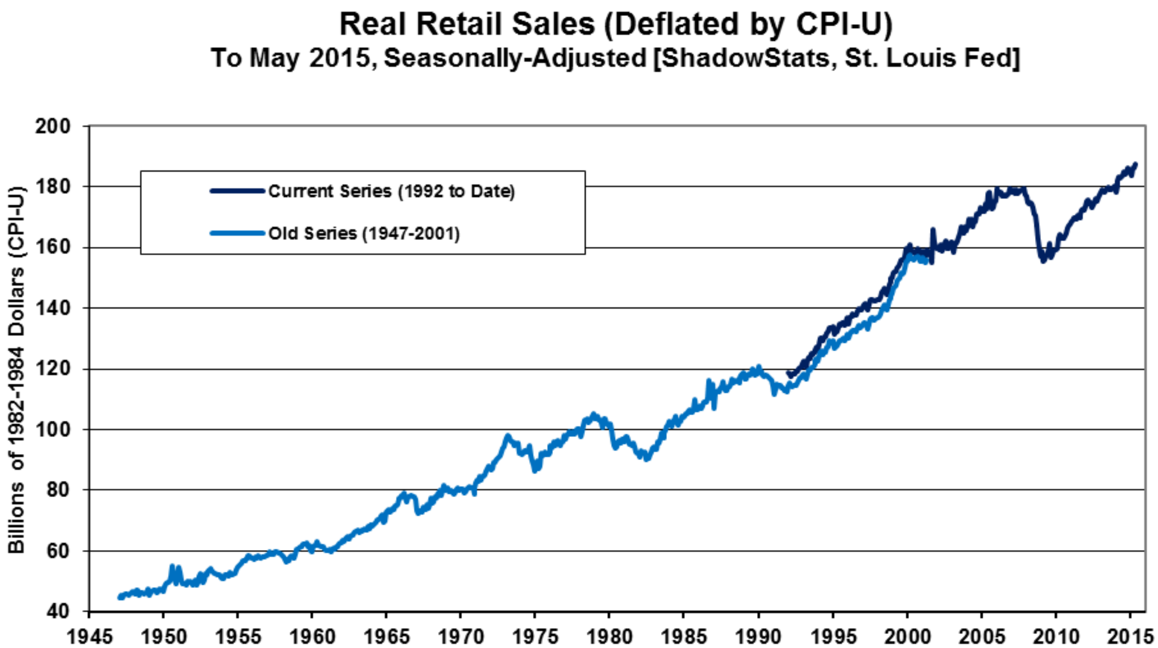
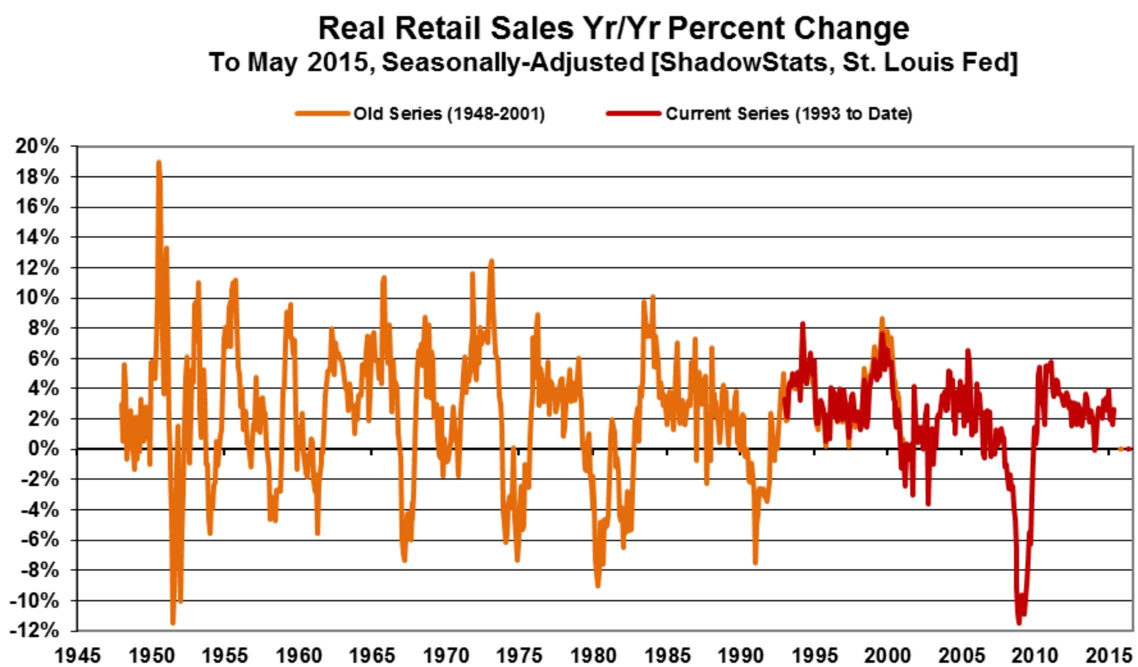




Real Retail Sales Graphs. The first of the four graphs preceding shows the level of real retail sales activity (deflated by the CPI-U) since 2000; the second graph shows year-to-year percent change for the same period. The level of headline monthly activity turned lower for the third month, in February 2015, showing signs of faltering sales. March showed some rebound, but that quarter remained in contraction.

April was soft, but headline activity bounced back in May. 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 to two-percent in February and March 2015, and below two-percent in April 2015. Annual growth bounced higher in May 2015, but the recession signal remains in play. 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 first-quarter 2015 reporting weakness, the apparent "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—May 2015—"Unchanged" Month-to-Month, Headed for Second-Quarter Contraction. Coincident with today's (June 18th) reporting of a headline, seasonally-adjusted monthly gain of 0.5% (0.53% at the second decimal point) in the May 2015 CPI-W, the BLS also published real average weekly earnings for the month of May (deflated by CPI-W). The gain in the May CPI-W followed a headline monthly gain of 0.1% (0.07%) in the April 2015 inflation measure.

Quarterly Outlook. Based on the April and May reporting of real earnings for both the "all employee" and the "production and nonsupervisory employees" categories, real earnings appeared headed for a quarterly contraction in second-quarter 2015. With both series, first-quarter real growth had been spiked by negative inflation generated by falling gasoline prices.

For all private employees, second-quarter 2015 real earnings (deflated by the CPI-U) were on track for an annualized contraction of 1.00% (-1.00%), versus an annualized gain of 5.56% in first-quarter 2015.

For the production and nonsupervisory employees, the second-quarter 2015 (deflated by the CPI-W) was on track for an annualized quarter-to-quarter contraction of 1.02% (-1.02%) in real earnings, versus a 4.61% annualized gain in first-quarter 2015.

Monthly Detail. 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 0.049% at the third decimal point, rounding to 0.0%). That followed a revised April decline of 0.23% (-0.23%) [previously "unchanged" at 0.0% (up by 0.02% at the second decimal point)], and an unrevised decline of 0.30% (-0.30%) in March 2015. The April revision fully reflected regular surveying and seasonal-factor instabilities by the BLS as to earnings.

Before inflation adjustment, nominal May earnings rose by 0.6% in the month, April earnings fell by a revised 0.2% (-0.2%) [previously up by 0.1%], and March earnings were unrevised at unchanged.

Year-to-year and seasonally-adjusted, May 2015 real average weekly earnings showed a gain of 2.54%, versus a revised 2.33% [previously 2.58%] in April 2015, versus an unrevised gain of 2.45% in March 2015. Unadjusted, year-to-year changes were 2.37% in May, a revised 2.44% [previously 2.34%] in April, and a revised 2.56% [previously 2.66%] in March 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 particularly in first-quarter 2015 inflation numbers that had been depressed by falling gasoline prices.

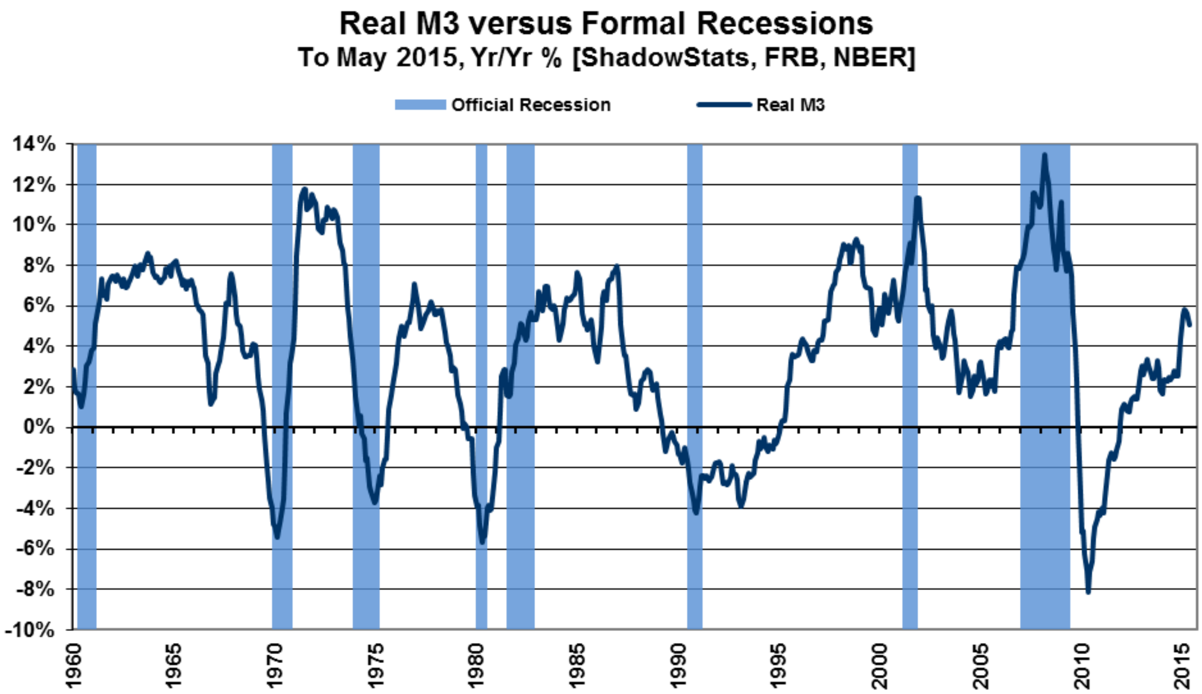
The regular graph of this series is shown in the *Opening Comments* section, plotting earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened 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 to May detail.

Real (Inflation-Adjusted) Money Supply M3—May 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 May 2015 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for May 2015 annual growth dropped back to 5.1%, from an unrevised 5.6% in April 2015. Such reflected a 0.4% slowing in the pace of nominal annual headline M3 growth (see *Commentary No. 725*) and a positive 0.2% swing in the annual inflation rate (there is a rounding difference).

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 before first-quarter 2015, a renewed downturn in official data is well underway to gaining 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.



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 generated a headline monthly increase in May 2015 CPI-U inflation of 0.4%, with annual inflation effectively pulling even with zero. Year-to-year CPI inflation increasingly will be going against negative year-ago numbers in the months ahead, and should move into relative positive territory with headline June 2015 reporting.

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* and in the *Hyperinflation Outlook Summary*.

A Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Again, see *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-numbers 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:

Existing- and New-Home Sales (May 2015). May 2015 existing-home sales are due for release on Monday, June 22nd, from the National Association of Realtors, with the May 2015 new-home sales report due from the Census Bureau on Tuesday, June 23rd. The existing-home sales detail will be covered in ShadowStats *Commentary* of June 23rd.

Still impaired by negative, underlying pressures from stressed consumer liquidity (see updated detail on consumer conditions in the *Opening Comments* section), and as discussed in the housing-starts detail of *Commentary No. 728*, prospects for rising home-sales activity remain bleak.

Despite monthly gains in February and March, April existing-home sales declined. The longer-term trend in the headline numbers generally has been flat-to-minus, with downside month-to-month activity a good possibility for May 2015 reporting, despite positive early expectations [MarketWatch shows a consensus estimate for a headline gain of 3.8%, versus initial reporting for April].

Smoothed for extreme and nonsensical monthly gyrations, an ongoing pattern of stagnation or downturn also should continue in play for May 2015 new-home sales. While monthly changes in activity here rarely are statistically-significant, still-unstable reporting and revisions (both likely to the downside) remain a fair bet for May [MarketWatch shows a consensus estimate for a headline gain of 1.5% versus initial reporting for April]. Reflecting deteriorating consumer issues, both the new- and existing- home sales series increasingly should reflect downside volatility in headline activity.

New Orders for Durable Goods (May 2015). The Census Bureau will report May 2015 new orders for durable goods on Tuesday, June 23rd. Net of irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of down-trending stagnation.

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, Third Estimate, Second Revision). The Bureau of Economic Analysis (BEA) will publish its third estimate of first-quarter 2015 GDP on Thursday, June 24th. Discussed in the *Opening Comments*, the initial headline first-quarter 2015 GDP growth estimate of 0.2%, revised to a headline quarterly contraction of 0.7% (-0.7%) in last month's first revision. Early consensus for the second revision is for some narrowing of the quarterly contraction, to an annualized decline of 0.4% (-0.4%) [per MarketWatch]. Such reflects some upside revisions to March detail, in the headline reporting of series such as May retail sales and May payroll employment.

Indeed, recent headline reporting and revisions touching first-quarter activity generally have been minimally on the plus-side, so some narrowing of the first-quarter's contraction is a reasonable expectation. Given the highly-leveraged nature of annualized quarterly growth rates, there is some risk of first-quarter activity actually revising to flat or minimally-positive growth.

Whatever is reported will be subject to the benchmark revision of the series on July 30th, accompanying the initial estimate of second-quarter 2015 GDP growth. At that time, first- and second-quarter 2015 estimates of real GDP growth remain good bets to show back-to-back quarterly contractions, irrespective of the third estimate of first-quarter growth. See the discussion in the *Opening Comments*.

