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

COMMENTARY NUMBER 736
June CPI, Housing Starts, Real Retail Sales and Earnings

July 17, 2015

"New" Recession Remains in Play—a Virtual Certainty—
But Broad Recognition of Same Still May Be a Couple of Months Out

Real Earnings for All Private Employees Plunged in Second-Quarter 2015

Inflation-Adjusted June Retail Sales Declined by 0.6% (-0.6%);
Weakening Annual Growth Signaled Intensifying Recession

Headline Annual CPI-U Inflation Turned Positive for First Time
Since December 2014, Although Actual Annual Inflation Never Turned Negative

June Annual Inflation: 0.1% (CPI-U), -0.4% (CPI-W), 7.7% (ShadowStats)

June Housing Starts Remained in a Smoothed Pattern of Low-Level Stagnation,
Despite Distorted Jump in Multiple-Unit Starts

Second-Quarter Housing Starts Surged at an Annualized Pace of 87.4%,
While Residential-Construction Employment Rose at an Annualized Pace of 0.5%?

PLEASE NOTE: The next regular Commentary, *scheduled for Wednesday, July 22nd, will cover June Existing-Home Sales and the benchmark revision to Industrial Production, along with a discussion of the pending GDP benchmark revision on July 30th.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Economy Is in a "New" Recession; General Recognition of Same Should Come before Year-End. The U.S. economy never has seen such a weak six-month period of growth, in industrial production and real retail sales, without being in recession (see today's real retail sales coverage and *Commentary No. 735* for industrial production). I had expected by the now-rapidly-approaching end of second-quarter economic reporting that two other key elements of the U.S. economy would be faltering clearly, as well, specifically foreign trade activity and housing-sector activity. Such reporting would have moved market expectations towards a much-weaker initial second-quarter 2015 GDP reporting than now is likely, along with early recognition of the "new" recession. Broad recognition of the recession probably is now several months off.

At present, the headline change in real first-quarter 2015 GDP activity is a shallow, annualized contraction of 0.17% (-0.17%), subject to the July 30th benchmark revision. Although second- and third-quarter 2015 activity also should be recognized eventually as having contracted, "advance" headline reporting for second-quarter 2015 GDP by the Bureau of Economic Analysis (BEA) appears likely—at present—to come in at the lower range of expectations, perhaps around two-percent annualized quarterly growth.

All that is subject, of course, to no major near-term (fourth-quarter 2014 and later) interim or coincident surprises from the pending July 21st benchmark revisions to industrial production, the reporting of the July 30th "advance" June 2015 trade deficit, and the coincident July 30th GDP benchmark revisions and "advance" estimate of second-quarter 2015 GDP.

Although the "new" recession remains in play, the faltering of the housing (see today's *Housing Starts* coverage) and trade reporting (see *Commentary No. 733*) has not happened. The trade deficit has been neutral, so far, for two out of the three months that set second-quarter activity, while the unstable headline housing data have been sharply positive. The positive housing detail is not credible, though, given the ongoing constraints on consumer activity and the sudden, slowing growth in construction employment. Consider that annualized quarterly growth in second-quarter 2015 housing starts was a somewhat incredible 87.4%, versus annualized growth in related second-quarter construction payrolls for residential building (all forms, single and multiple units) of 0.5%.

Separately, the government has been suggesting a quarterly inventory buildup—a traditional upside fudge-factor in early-GDP reporting—but that is not highly credible given the broad weakness in both the production and retail-consumption series. Inventories tend towards an involuntary buildup, when sales slow unexpectedly in the context of ongoing strong production.

Beware a Potential Unexpected Widening in the June Trade Deficit and Related Hit to the "Advance" GDP Estimate. While reporting of a sharp deterioration in the second-quarter 2015 trade deficit still may be seen, that would not happen publicly until July 30th, with the first release of the new economic series known as the "advance" trade deficit for June 2015, an early estimate of data previously missing from initial GDP calculations. That new trade data release will coincide with the "advance" estimate of second-quarter GDP growth. With no early warning of its impact on GDP reporting, that trade-deficit number is a wild card for the markets, particularly one that could widen the quarterly trade shortfall meaningfully and at the same time bring in headline GDP growth well below still-evolving market expectations.

The production and retail series are broad enough, reasonably stable enough and have well enough established relationships with the GDP to signal a recession with a high degree of reliability. A "new" recession—a period of depressed economic activity—most certainly is underway, and other reporting should catch-up meaningfully in the near term, although it still may take several months of weakening data for the economic consensus to move off center on the issue.

ShadowStats will cover next Tuesday's industrial-production benchmarking in *Commentary No. 737* of July 22nd, along with a discussion of the pending benchmark revisions to the GDP and any update to the outlook. As discussed in the *Gold Graphs* section, the reporting of weakening U.S. economic activity remains an important market consideration of near-term, fundamental selling pressure against the U.S. dollar.

Today's Missive (July 17th). The balance of today's *Opening Comments* concentrates on the detail from the headline reporting of the June 2015 Consumer Price Index (CPI), related Real Retail Sales and Earnings, and June Housing Starts.

The *Hyperinflation Watch—Gold Graphs* 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*. The *Hyperinflation Outlook Summary* is in the process of an update for the next *Commentary No. 737* (July 22nd). The most-recent version is available in *Commentary No. 735*.

The *Week Ahead* section previews reporting for June 2015 New- and Existing-Home Sales and for the benchmark revision to industrial production.

Consumer Price Index (CPI)—June 2015—CPI-U Rose by 0.3% for Fifth Monthly Gain; Annual Inflation of 0.1% Was First Positive Reading Since December 2014. June 2015 CPI-U inflation rose month-to-month by 0.32%, in line with consensus expectations of a 0.3% headline gain [MarketWatch, Bloomberg]. Such was the fifth consecutive positive month-to-month inflation reading, following the "deflation" created by declining gasoline prices. Breaking above zero for the first time this year, year-to-year CPI-U inflation rose by a headline 0.12%, per the Bureau of Labor Statistics (BLS). That was the first headline gain in annual CPI-U inflation since December 2014.

Separately, although the pace of annual CPI-U inflation just has broken above zero for the first time in six months, year-to-year inflation is not and has not been negative as indicated by headline reporting, when considered in the context of traditional CPI reporting and common experience (see discussion in the *Reporting Detail*).

Going forward, headline annual inflation readings should be increasingly positive, thanks to the continued rise in gasoline prices and a switch to positive seasonal adjustments for same in the CPI. In addition, year-to-year inflation comparisons will be against the softer inflation numbers of a year ago, hit by weak oil and gasoline prices.

A sustained increase in energy prices would push headline CPI-U inflation sharply higher. Distorted oil industry economics and fluctuating Cartel gimmicks have been altering circumstances in favor of maintaining upside, short-term pricing pressures. Near-term selling pressure against the U.S. dollar should intensify, and that eventually should become the dominant factor for dollar-denominated oil prices, spiking oil prices and other inflationary pressures sharply.

CPI-U. The headline, seasonally-adjusted June 2015 CPI-U rose month-to-month by 0.32%, following a headline May gain of 0.44%. Adjusted headline inflation was constrained slightly in June, by seasonal factors. On a not-seasonally-adjusted basis, the June 2015 CPI-U rose by 0.35% month-to-month, following an unadjusted 0.51% gain in May.

Encompassed by the seasonally-adjusted gain of 0.32% in the June 2015 CPI-U [up by an unadjusted 0.35%], aggregate June energy inflation rose for the month by a seasonally-adjusted 1.74% [up by an unadjusted 3.05%]. In the other major CPI sectors, adjusted June food and beverage inflation was 0.26% [up by 0.16% unadjusted], while adjusted "core" inflation rose by 0.18% [up by 0.10% unadjusted] for the month. Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 1.76% in June 2015, versus 1.72% in May 2015.

For second-quarter 2015, seasonally-adjusted CPI-U inflation rose at an annualized quarterly rate of 2.98%, having contracted at an annualized pace of 3.06% (-3.06%) in first-quarter 2015. Year-to-year and not-seasonally-adjusted, second-quarter 2015 CPI-U inflation showed an annual contraction of 0.04% (-0.04%), versus an annual contraction of 0.06% (-0.06%) in first-quarter 2015.

Not seasonally adjusted, June 2015 year-to-year inflation for the CPI-U increased by 0.12%, following a headline "unchanged" annual growth, down by 0.04% (-0.04%) at the second decimal point, in May 2015.

CPI-W. The June 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 0.34% (up by 0.38% unadjusted), versus an adjusted gain of 0.53% (up by 0.60% unadjusted) in May.

For second-quarter 2015, seasonally-adjusted CPI-W inflation rose at an annualized quarterly rate of 3.35%, having contracted at an annualized pace of 4.41% (-4.41%) in first-quarter 2015. Year-to-year and not-seasonally-adjusted, second-quarter 2015 CPI-W inflation showed an annual contraction of 0.59% (-0.59%), versus an annual contraction of 0.68% (-0.68%) in first-quarter 2015.

Unadjusted, June 2015 year-to-year CPI-W inflation fell by 0.38% (-0.38%), somewhat narrowed from the annual decline of 0.56% (-0.56%) in May 2015.

Chained-CPI-U. Initial reporting of unadjusted year-to-year inflation for the June 2015 C-CPI-U narrowed to an annual contraction of 0.13% (-0.13%), from an annual contraction of 0.32% (-0.32%) in May 2015.

For second-quarter 2015, year-to-year and not-seasonally-adjusted C-CPI-U inflation showed an annual contraction of 0.34% (-0.34%), versus an annual contraction of 0.58% (-0.58%) in first-quarter 2015.

Alternate Consumer Inflation Measures. The ShadowStats-Alternate Consumer Inflation Measure (1990-Base) year-to-year annual inflation was roughly 3.7% in June 2015, versus 3.5% in May 2015. The June 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 7.7% year-to-year, versus 7.6% in May 2015.

Real Retail Sales—June 2015—Down for the Month, but Up for the Quarter, Real Annual Sales Growth Signaled a Deepening Downturn. Not adjusted for inflation, headline nominal retail sales declined by 0.27% (-0.27%) in June 2015, following a downwardly-revised gain of 1.03% in May. Year-to-year growth in June 2015 was 1.53%, versus a downwardly-revised 2.26% in May 2015, all as detailed in *Commentary No. 734* of July 14th.

Headline Reporting of Real Retail Sales. Based on the headline monthly CPI-U inflation of 0.32% in June 2015, in the context of a 0.44% gain in the May CPI-U, June 2015 real retail sales fell month-to-month by a headline 0.59% (-0.59%), offsetting a downwardly revised 0.58% real monthly gain in May.

Where first-quarter 2015 real retail sales contracted at an unrevised annualized pace of 1.02% (-1.02%), the annualized pace of quarterly growth for second-quarter 2015 was a positive 2.98%.

Real Year-to-Year Growth Showed Intensifying Recession Signal. With seasonally-adjusted headline year-to-year CPI-U inflation up by 0.18% in June 2015, and up by 0.03% in May 2015, year-to-year change in June 2015 real retail sales was 1.34%, versus a downwardly-revised 2.23% annual gain in May 2015.

In normal economic times, annual real retail sales growth at or below 2.0% signals an imminent recession. That signal had been given otherwise, recently, and was renewed in April 2015, indicating a deepening downturn. Although higher than the April reading, the level of real annual growth in May 2015 still was consistent with that circumstance, and the headline June 2015 number now has generated an intensified signal of imminent recession.

Separately, discussed later in these *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.

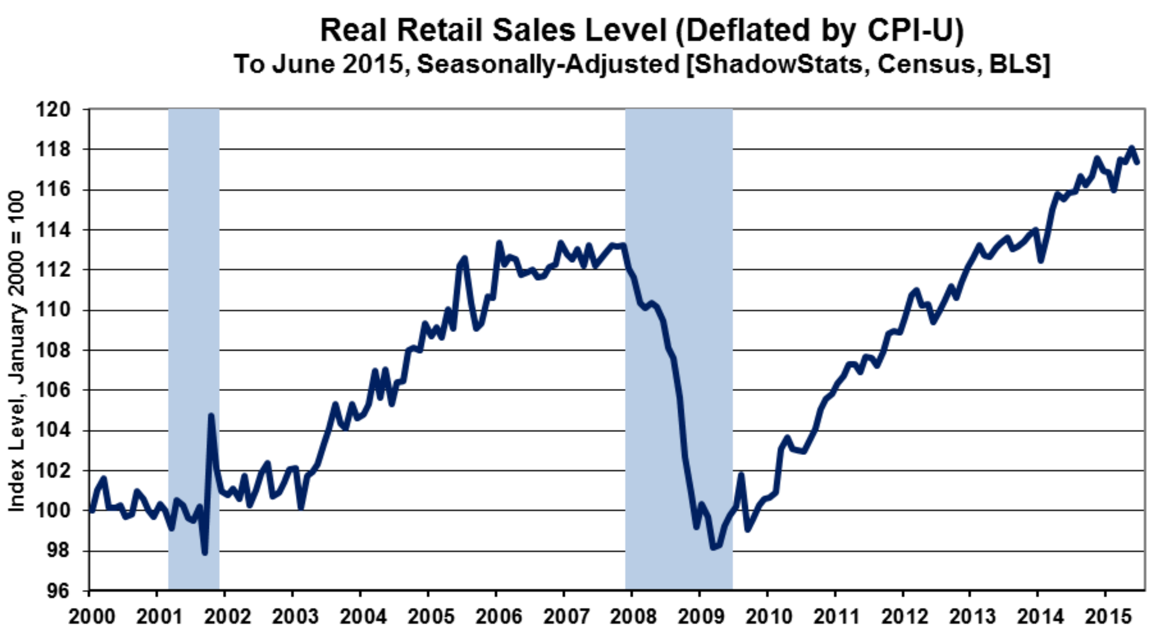
As official consumer inflation moves higher in the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by the general pattern of declining-real-earnings difficulties highlighted in the next section—these data should resume trending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

Real Retail Sales Graphs. The usual graphs of headline activity level and annual growth in real retail sales are found in the *Reporting Detail* section. As also, as shown in the next graph following here, the level of headline monthly activity turned lower for the third consecutive month, in February 2015, showing signs of faltering sales. March rebounded some, but that quarter remained in contraction. April was down, but headline activity bounced back in May, only to be offset by a monthly decline in June sales.

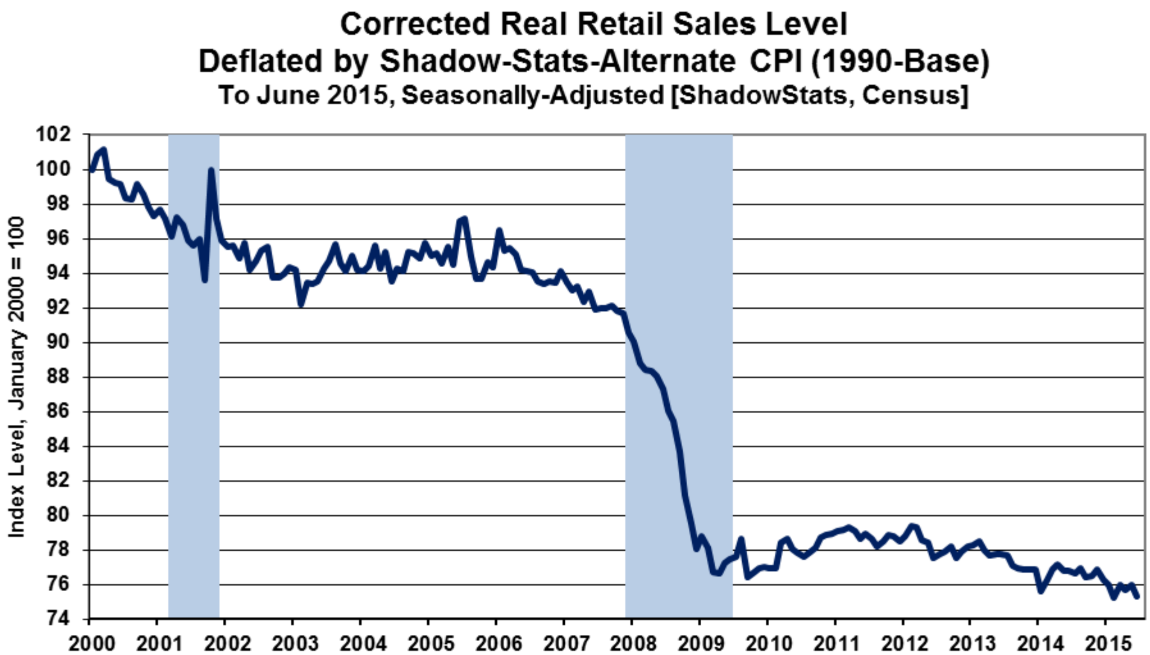
Shown in the graphs of year-to-year activity in the *Reporting Detail*, annual growth had plunged to a near-standstill in January and February 2014, had bounced back irregularly, hitting its recent high level in January 2015, spiked by negative inflation at the time but it fell back to two-percent in February and March 2015, and below two-percent in April 2015. Annual growth bounced higher in May 2015, but the recession signal remained in play, again, with June 2015 activity dropping well below the 2.0% recession signal level, suggestive of an intensifying retail-sales contraction.

Corrected Real Retail Sales—June 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 of the accompanying graphs 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 six months of 2015, allowing for the occasional and temporary upside blips.



Real Average Weekly Earnings—June 2015—Earnings Plunged in Second-Quarter 2015. Coincident with the reporting of a headline, seasonally-adjusted monthly gain of 0.34% in the June 2015 CPI-W, the BLS also published real average weekly earnings for the month of June ("production and nonsupervisory employees" category deflated by CPI-W). The gain in the June CPI-W followed a headline monthly gain of 0.53% in the May 2015 inflation measure.

<u>Quarterly Contractions.</u> With full initial reporting in place for second-quarter 2015, real average weekly earnings for both the "all employee" and the "production and nonsupervisory employees" categories showed sharp quarterly contractions. With both series, first-quarter real growth had been spiked by negative inflation generated by falling gasoline prices.

For all private employees in the nonfarm payroll series, second-quarter 2015 real earnings (deflated by the CPI-U) fell at an annualized pace of 1.55% (-1.55%), versus an annualized gain of 5.57% in first-quarter 2015.

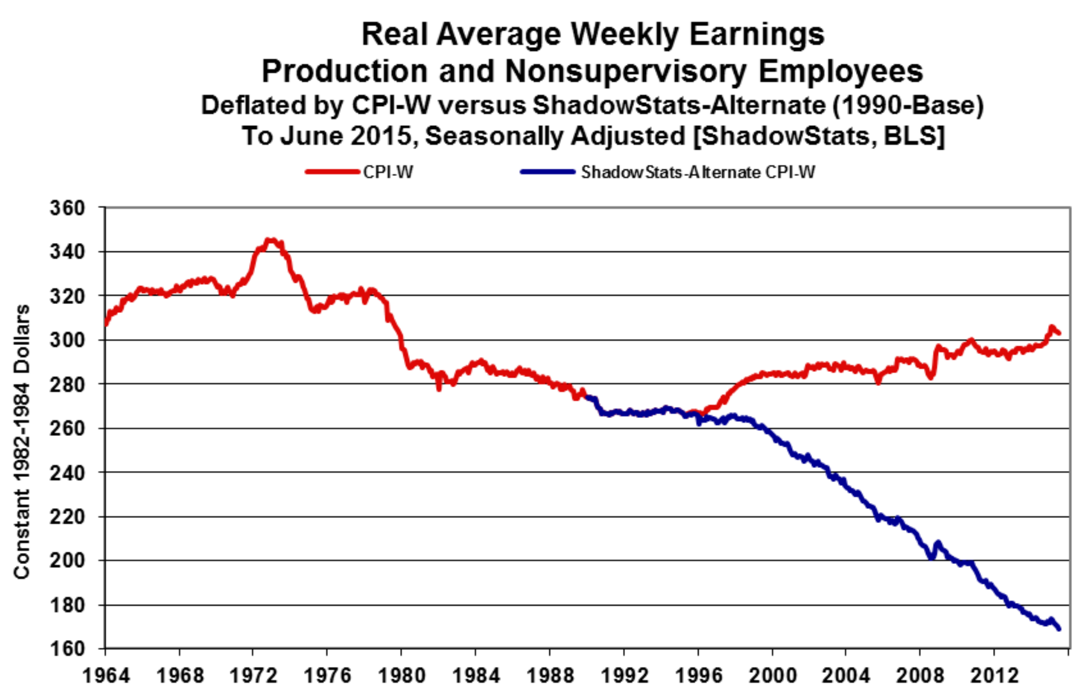
For the production and nonsupervisory employees, second-quarter 2015 real earnings (deflated by the CPI-W) showed an annualized quarter-to-quarter contraction of 2.55% (-2.55%), versus a 6.22% annualized gain in first-quarter 2015.

Monthly Detail. In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings fell by 0.24% (-0.24%) for the month of June 2015, versus a revised contraction of 0.25% (-0.25%) for May, and an unrevised April decline of 0.23% (-0.23%). The May revision fully reflected regular surveying and seasonal-factor instabilities by the BLS as to earnings.

Before inflation adjustment, nominal June earnings rose by 0.1%, versus a downwardly revised gain in nominal May earnings of 0.3% in the month, and an unrevised decline in April earnings of 0.2% (-0.2%).

Year-to-year and seasonally-adjusted, June 2015 real average weekly earnings showed a gain of 1.95%, down from a revised annual gain in May 2015 of 2.22% and an unrevised 2.33% gain in in April 2015. Unadjusted, year-to-year change slowed to 0.70% in June, from an unrevised 2.37% gain in May and an unrevised 2.44% gain in April. 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 (minor, late upticks in the graph) that had been depressed by falling gasoline prices.

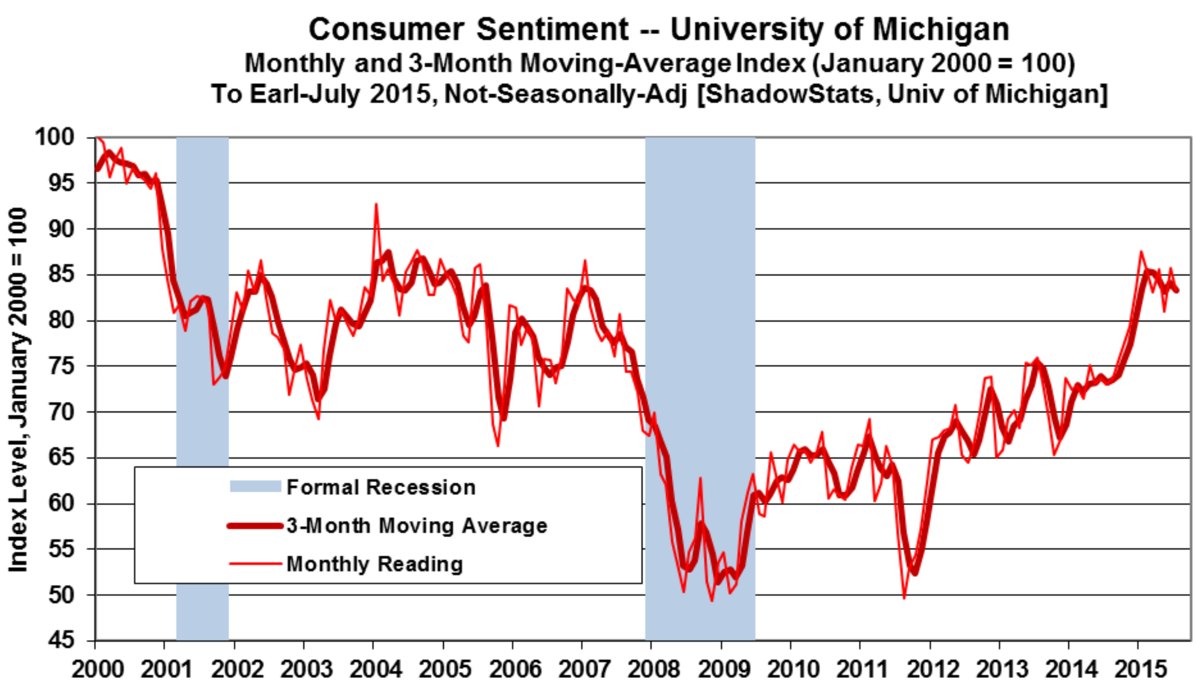
The accompanying regular graph of this series plots earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used 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.



Consumer Liquidity Update—Early-July 2015 Consumer Sentiment—Conditions Weaken Anew. Further to the detailed review of consumer liquidity conditions in *Commentary No. 734* of July 14th, and as otherwise discussed regularly in these *Commentaries* (see detail in *No. 692 Special Commentary: 2015 - A World Out of Balance*), consumer circumstances deteriorated further with today's headline reporting detail on earnings and sentiment.

Discussed in the prior section, real (inflation-adjusted) earnings contracted sharply in June and in second-quarter 2015, for all private employees in the payroll survey, as well as for all production and supervisory employees.

Separately, the University of Michigan published its early-month estimate for July 2015 Consumer Sentiment, today, showing an unexpected decline in the advance, headline reading, as well as in the three-month moving average of same, as reflected in the accompanying, updated graph.



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 driven 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. The same issues constrain real retail sales activity and the related, personal-consumption-expenditures category, which, with residential real estate, account for more than 70% of aggregate U.S. GDP activity (again, see *Commentary No. 734* for full detail).

Housing Starts—June 2015—Smoothed Low-Level Stagnation, versus an 87.4% Surge in Quarterly Starts in the Context of a 0.5% Annualized Gain in Related Construction Employment. The aggregate housing-starts series continues to be worthless other than as viewed in terms of its aggregate six-month moving average. Current headline activity was boosted by heavily-distorted, multiple-unit housing starts, which appear to have spiked in response to a regulatory or tax change/expiration in the New York area. Such happens every couple of years. As a sense of the ridiculous nature of the headline reporting, consider that housing starts for five-units or more in June 2015 rose by 26.6% month-to-month, 55.0% year-to-year, and neither the monthly nor annual gain was close to being statically significant.

Consider, too, that the aggregate housing-starts count (these are actively-worked-on units) rose at an annualized quarterly pace of 87.4% in second-quarter 2015. That growth purportedly was supported by annualized quarterly growth of 0.5% in related construction employment. Reporting nonsense aside, the regular headline data and details follow.

Smoothed Numbers. A general pattern of low-level stagnation continued in the broad series, as best viewed in terms of the longer-range historical graph of aggregate activity, seen at the end of *Reporting Detail* section, and in the context of flat-to-down trending activity, smoothed by six-month moving averages, as shown in graphs in these *Opening Comments*.

Reflected in those smoothed graphs, the aggregate housing-starts series ticked minimally higher in June, reflecting a downside movement in the single-unit starts activity, but a jump in the multiple-unit starts category. Although there had been a minor upside trend in the aggregate series into the latter part of 2014, total housing-starts activity has remained well below any recovery level.

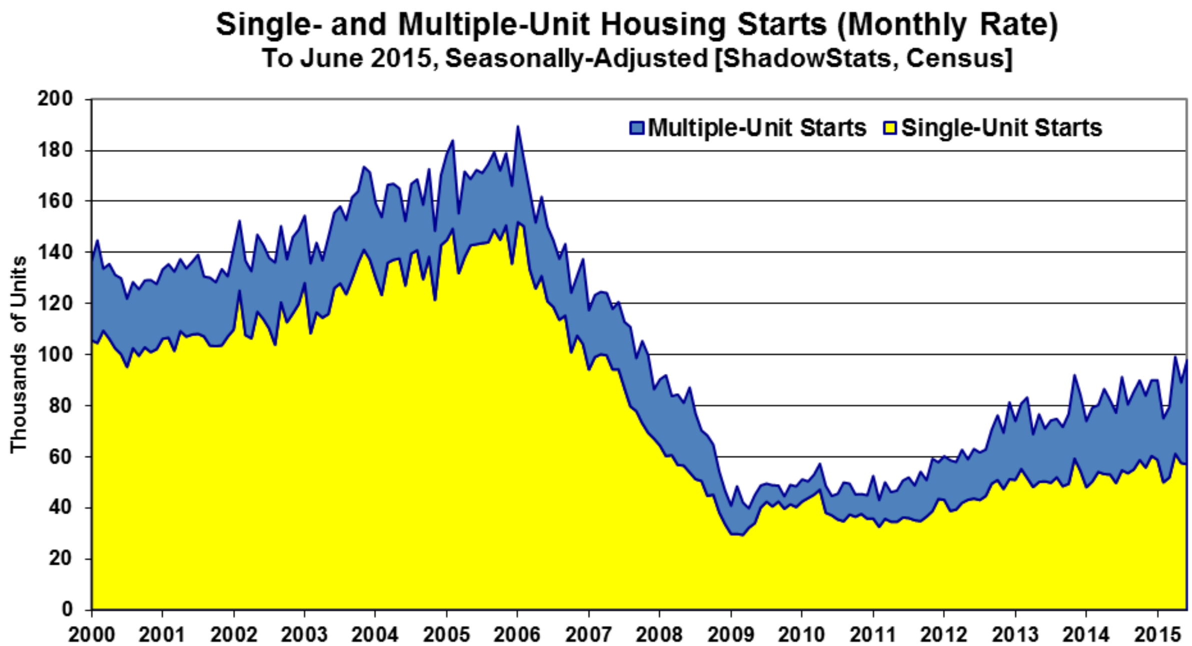
Over time, the bulk of the extreme, reporting instability and the minimal uptrend in the aggregate series has been due largely to particularly-volatile reporting in the multiple-unit, housing-starts category (apartments, etc.). Recent activity in multiple-unit starts actually has recovered to above pre-recession activity, in the context of extreme month-to-month volatility. Even so, the recent impact of the current recovery in multiple-unit activity largely has been lost in the detail of total housing starts.

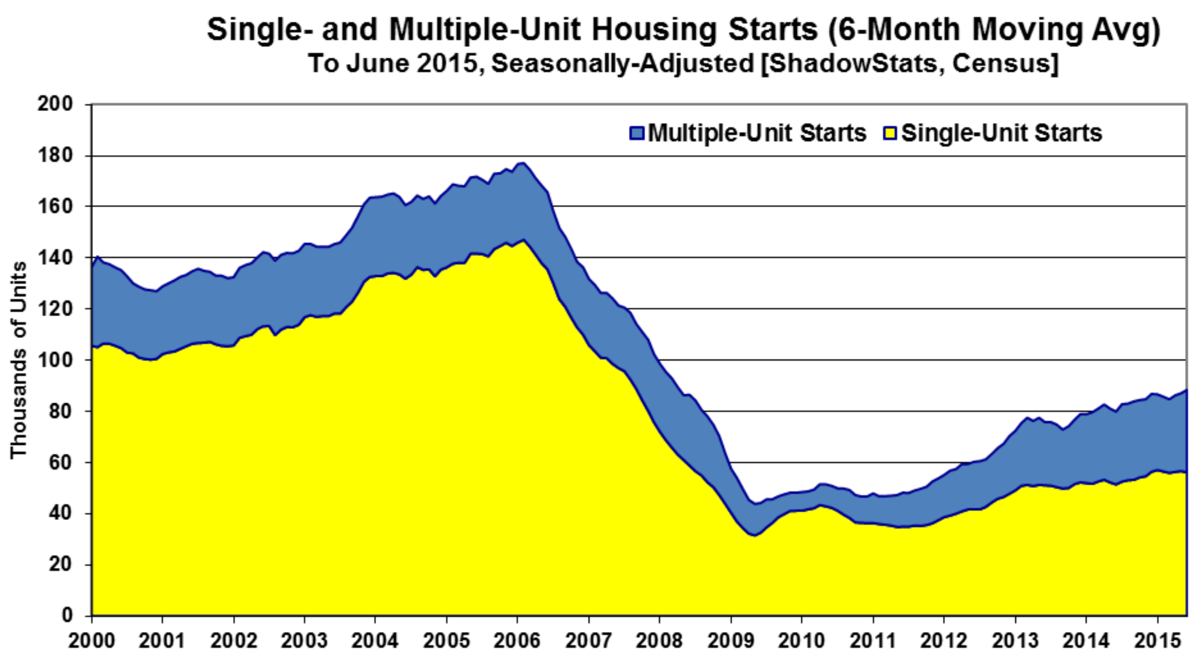
Consumer Liquidity Issues Still Impair Housing Activity**.** On a per-structure basis, activity in housing starts is dominated by the single-unit housing starts category, which has remained stagnant-to-down on a smoothed basis—at a low level of activity—since hitting bottom in early-2009. The private housing sector never recovered from the business collapse of 2006 into 2009. The underlying problem here remains intense, structural-liquidity woes besetting the consumer, as discussed in the previous section.

June 2015 Housing-Starts Headline Reporting. The headline, seasonally-adjusted monthly gain of 9.8% in June 2015 housing starts was statistically-insignificant. That followed a revised monthly decline of 10.2% (-10.2%) in May, and a revised gain of 24.7% in April. Net of prior-period revisions, June 2015 starts rose by 13.3% for the month.

Year-to-year change in the seasonally-adjusted, aggregate June 2015 housing-starts measure was a statistically-significant gain of 26.6%, versus a revised annual gain of 8.4% in May 2015, and a revised gain of 14.5% in April 2015.

The headline June 2015 monthly gain of 9.8% for total housing starts reflected a headline monthly decline of 0.9% (-0.9%) in the "one unit" category, and a jump of 28.6% in the “five units or more” category. Not one of those headline changes was close to being statistically-significant.





By-Unit Category. Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit structure housing starts—generally for individual consumption, resulting in new home sales—versus multi-unit structure starts that generally reflect the building of rental and apartment units.

Housing starts for single-unit structures in June 2015 fell month-to-month by a statistically-insignificant 0.9% (-0.9%), following a revised decline of 6.0% (-6.0%) in May, and a revised 18.0% gain in April. Single-unit starts for June 2015 showed a statistically-significant year-to-year annual gain of 14.7%, versus a revised 8.5% annual gain in May 2015, and a revised annual gain of 15.0% in April 2015.

Housing starts for apartment buildings (generally 5-units-or-more) in June 2015 rose month-to-month by a statistically-insignificant 28.6%, following a revised decline of 15.1% (-15.1%) in May, and revised gain of 40.2% in April. The statistically-insignificant June 2015 year-to-year gain of 55.0%, followed a revised annual gain of 9.8% in May 2015, and a revised gain of 11.5% in April 2015.

Expanding the multi-unit structure housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category.

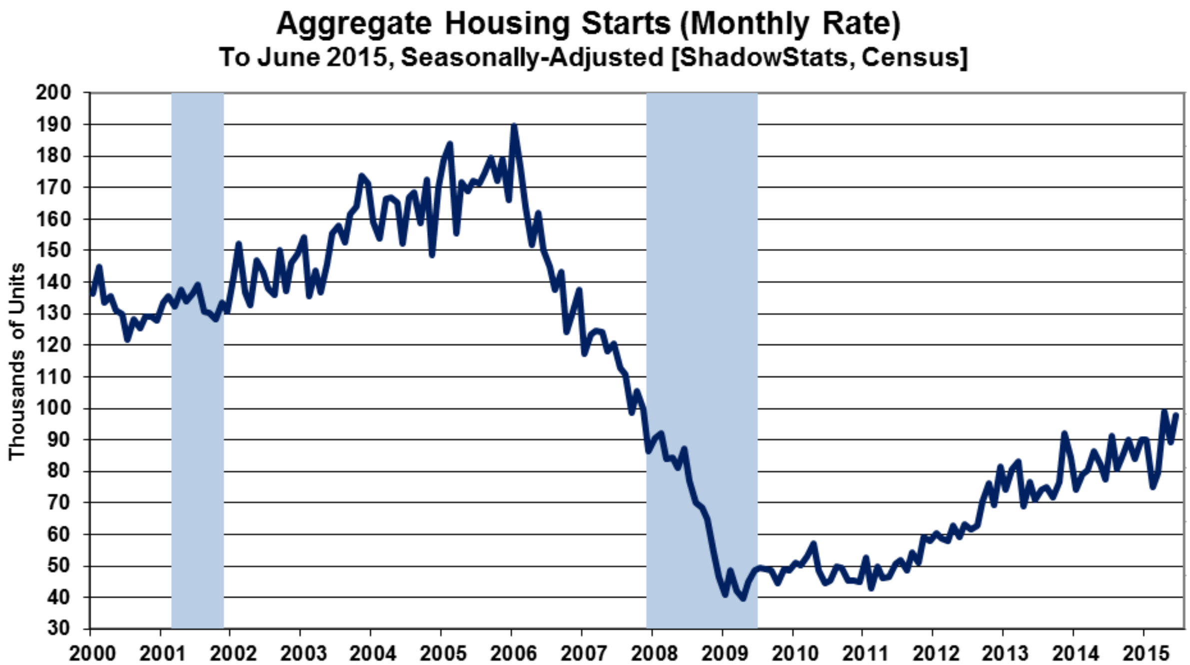
Accordingly, the statistically-insignificant June 2015 monthly gain of 9.8% in aggregate housing starts was composed of a statistically-insignificant decline of 0.9% (-0.9%) in one-unit structures, combined with a statistically-insignificant monthly gain of 29.4% in the multiple-unit structures category (2-units-or-more, including the 5-units-or-more category). Again, these series are plotted in the accompanying graphs.

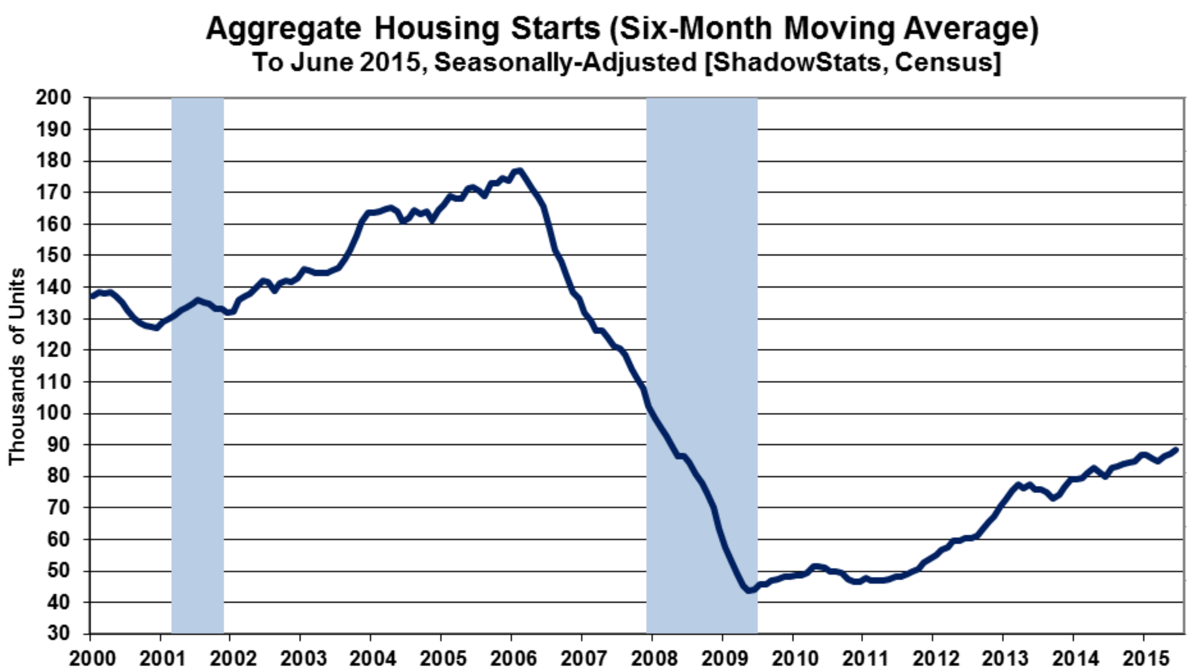
Housing Starts Graphs. Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,174,000 in June 2015, versus a revised 1,069,000 (previously 1,036,000) in May 2015. The scaling detail in the aggregate graphs at the end of the *Reporting Detail* section reflects those annualized numbers.

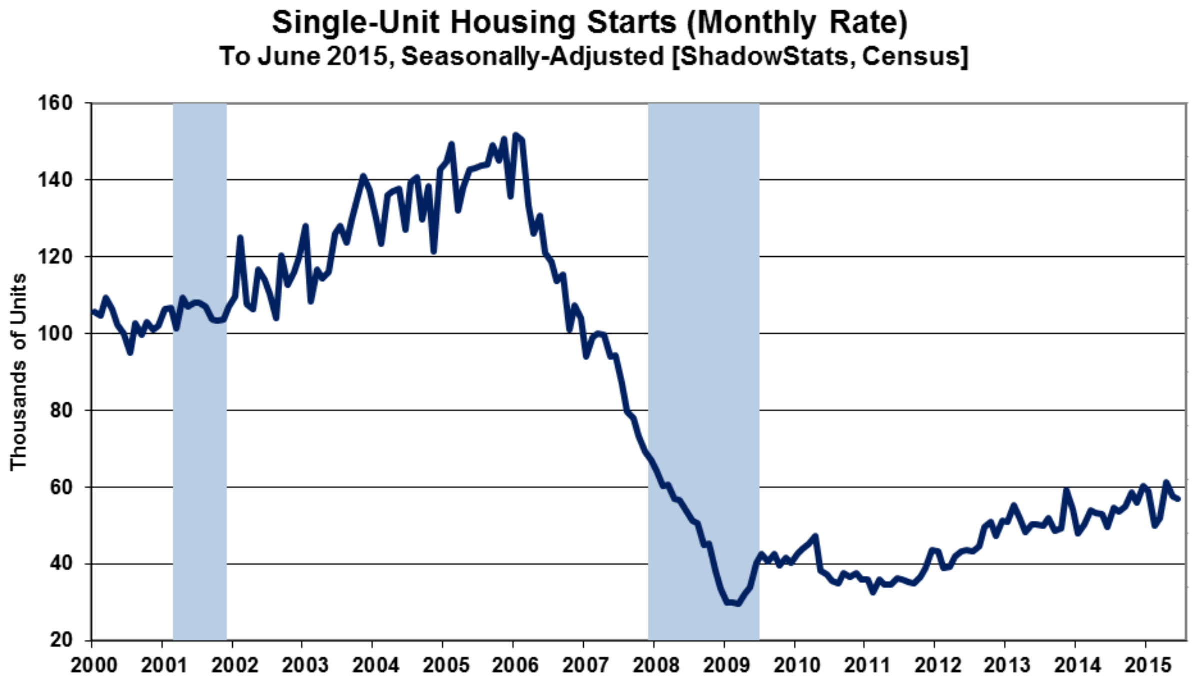
Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the revised headline 236,000 (previously 211,000, initially 191,000) month-to-month gain in the annualized April 2015 numbers was larger than any actual total (non-annualized) level of monthly starts ever, for single month. That is since related starts detail was first published after World War II.

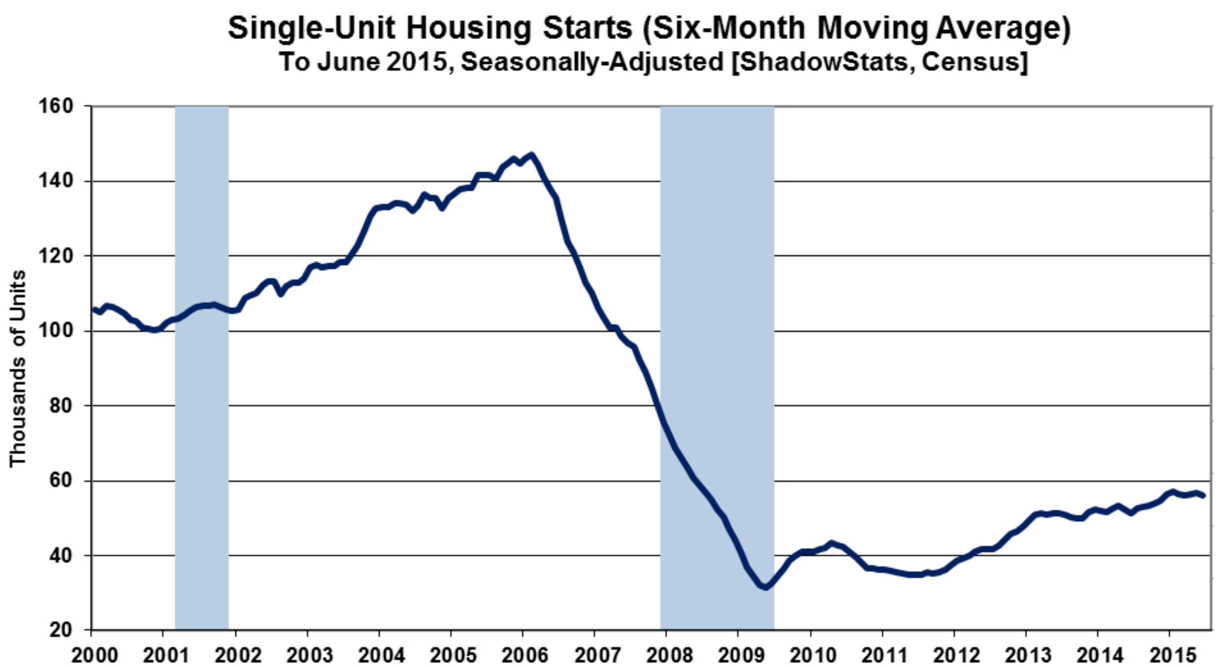
Accordingly, the monthly rate of 97,833 units in June 2015, instead of the annualized 1,374,000-headline number, is used in the scaling of the series of graphs shown in these *Opening Comments*. With the use of either scale of units, though, appearances of the graphs and the relative monthly, quarterly and annual percentage changes are otherwise identical.

The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of sales then was down 79% (-79%) from the January 2006 pre-recession peak. Against the downside-spiked low in April 2009, the June 2015 headline number was up by 146%, but it still was down by 48% (-48%) from the January 2006 series high. Shown in the historical perspective of the post-World War II era, current aggregate activity is trending stagnant at levels (stagnant-to-lower levels for single-unit starts) that otherwise have been at the historical troughs of recession activity of the last 70 years, as seen in the final graph of the *Reporting Detail* section.

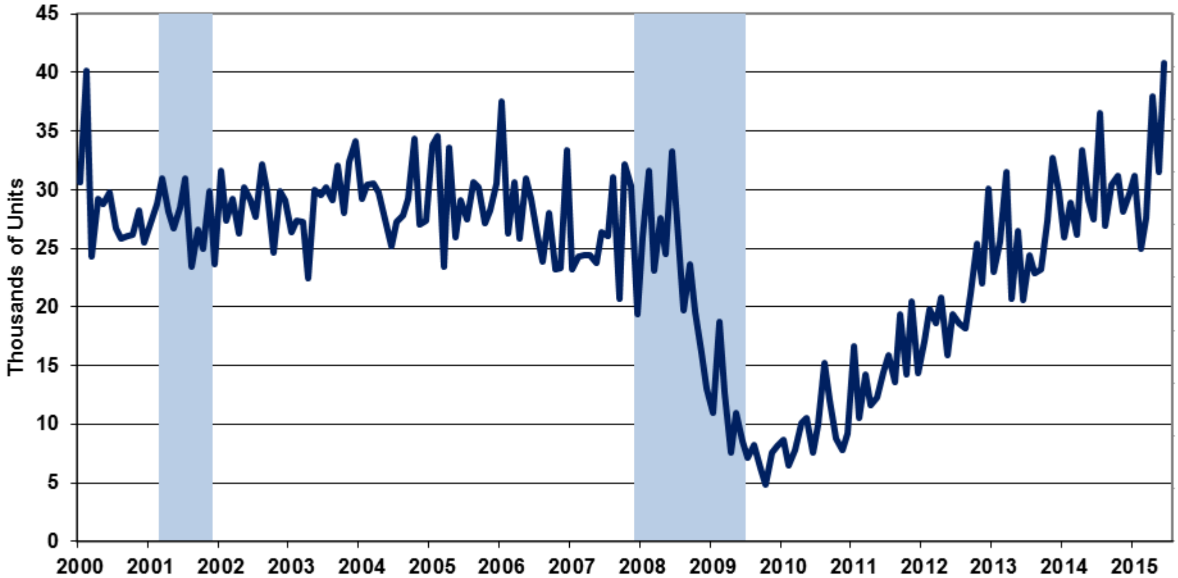




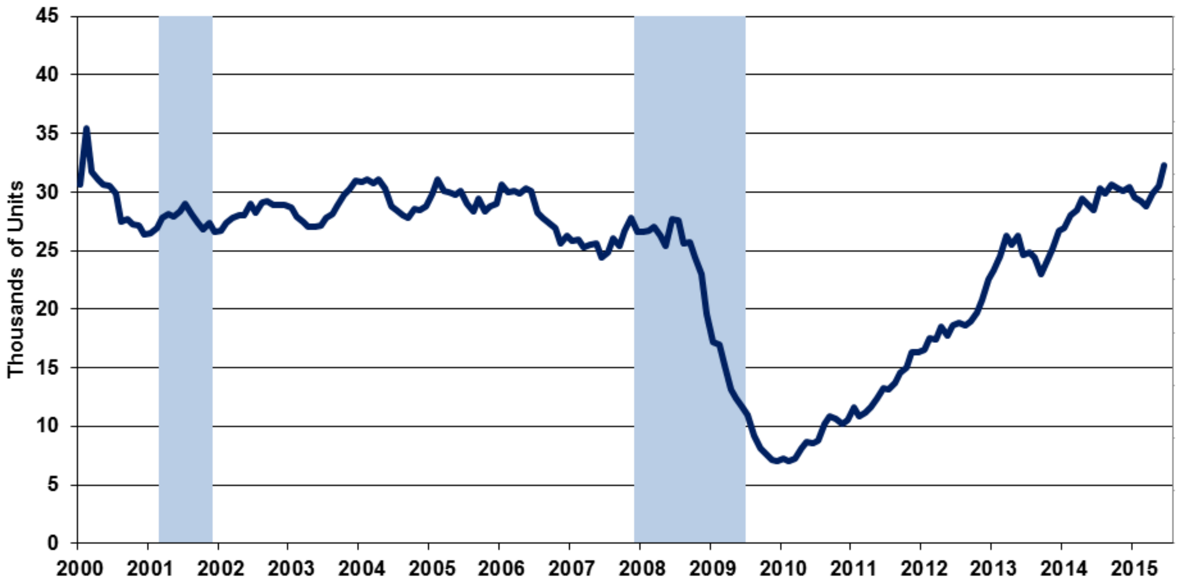

Single-Unit Housing Starts (Monthly Rate)
To June 2015, Seasonally-Adjusted [ShadowStats, Census]
Thousands of Units
160
140
120
100
80
60
40
20
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015


Single-Unit Housing Starts (Six-Month Moving Average)
To June 2015, Seasonally-Adjusted [ShadowStats, Census]
Thousands of Units
160
140
120
100
80
60
40
20
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015

Multiple-Unit Housing Starts (Monthly Rate)
To June 2015, Seasonally-Adjusted [ShadowStats, Census]



Multiple-Unit Housing Starts (Six-Month Moving Average)
To June 2015, Seasonally-Adjusted [ShadowStats, Census]



[The* Reporting Detail *section provides further information on CPI and Residential Investment series.]

____

HYPERINFLATION WATCH

GOLD GRAPHS

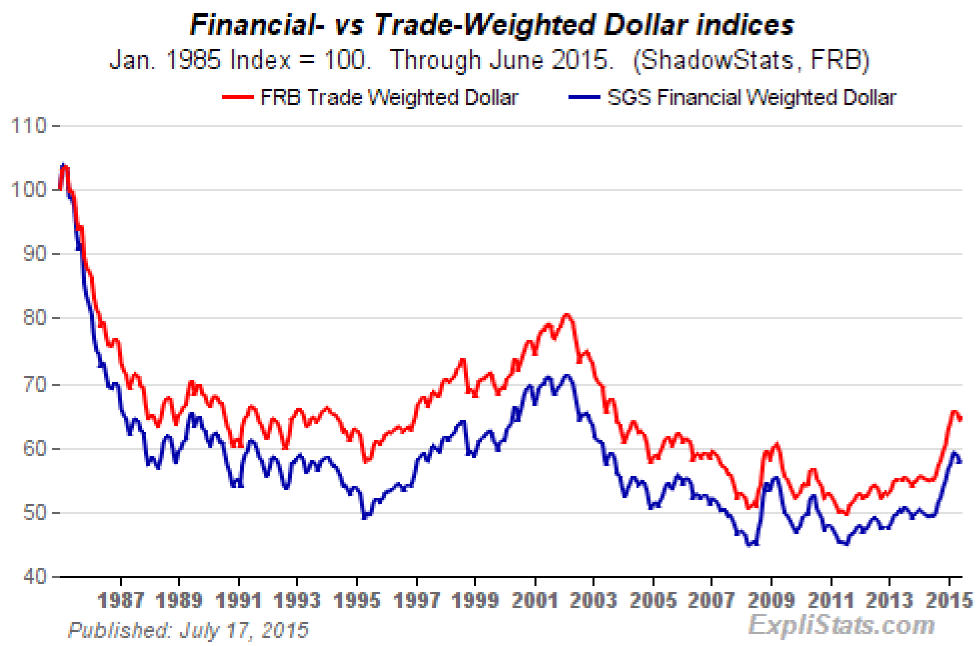
Monthly Gold Graphs and Related Comments. The three traditional gold graphs that usually accompany the CPI *Commentaries* follow at the end of this section. The "Latest July" point in each graph reflects late-afternoon New York prices for July 17th. These graphs also update the *Nominal Markets* section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

Instabilities from Greece and China Impacted Near-Term Activity in the Precious Metals. Whether hit by Chinese investors selling gold to meet liquidity needs tied to tumultuous domestic equity markets, or hit by central bank selling aimed at discouraging flight-to-quality in the still unfolding crisis tied to the default by Greece, the prices of gold and silver have been hit recently. Perversely, this is the time when private investors generally would be looking to move into precious metals for safety.

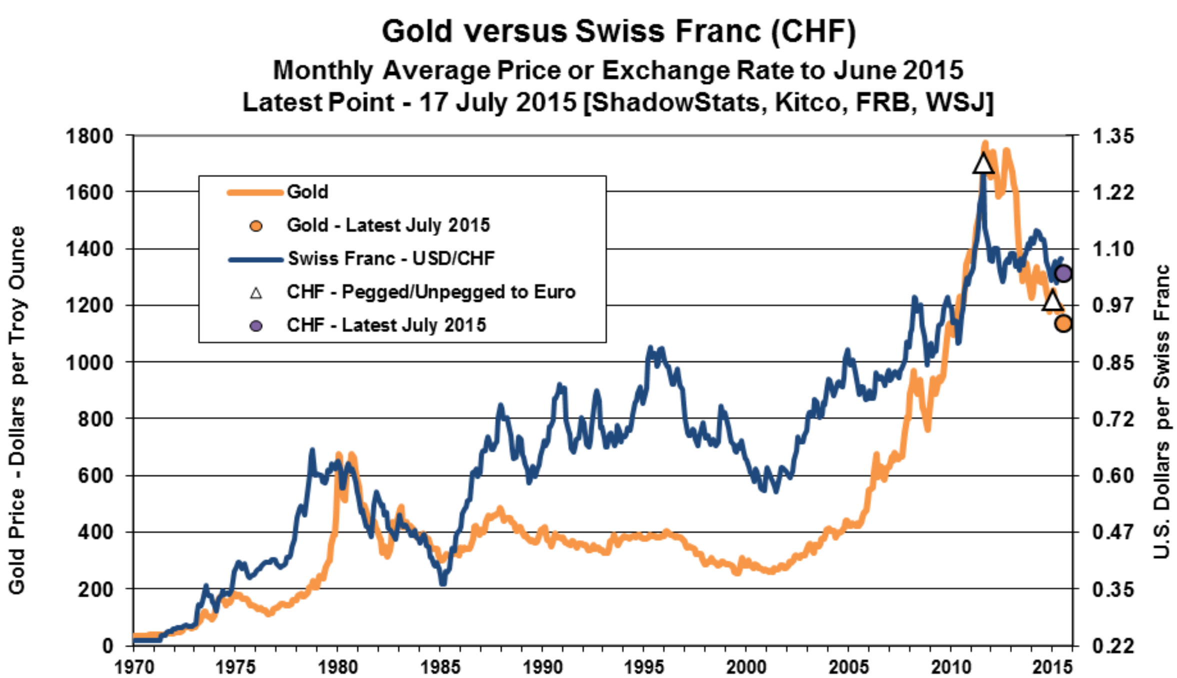
In a related area, recent dollar strength may have taken on some of that mantle of flight-to-safety, in addition to recent pro-dollar jawboning by Fed Chair Yellen, but such should be short-lived. Any apparent economic, systemic and/or political stability in the United States likely will be fleeting, with the U.S. dollar still facing a massive sell-off, with heavy flight-to-quality and safety outside of the U.S. dollar in the near future. Such will be explored in the updated *Hyperinflation Outlook* of the next *Commentary No. 737* on July 22nd.

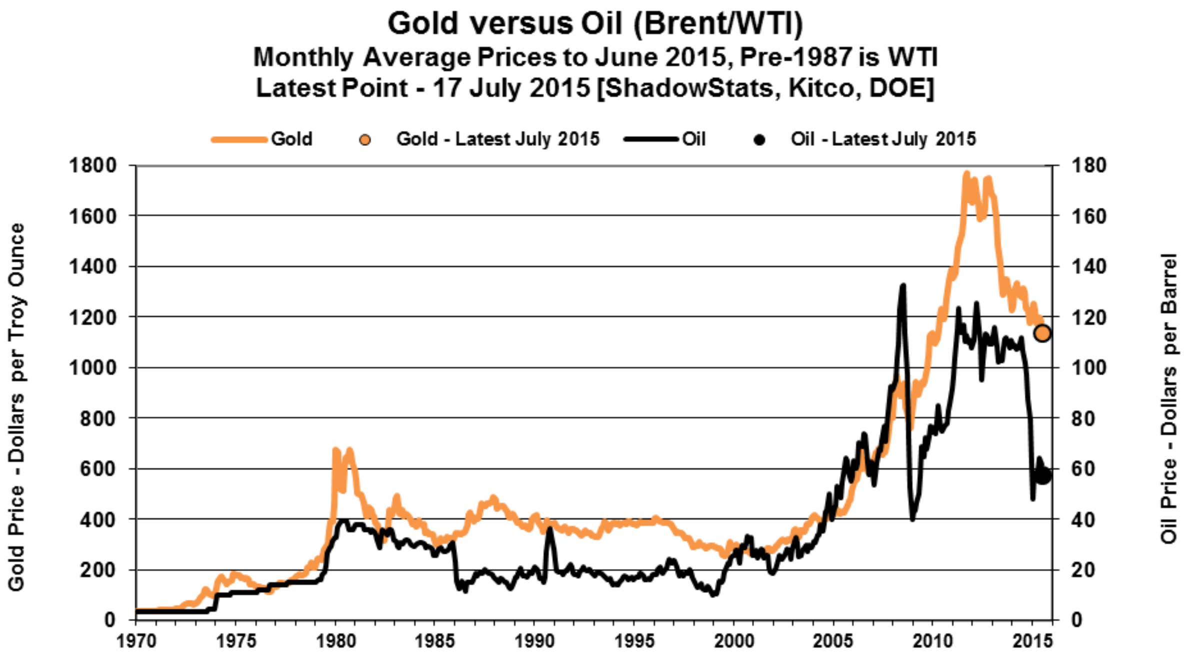
Dollar Strength Still Distorts the Financial Markets. Discussed extensively in *No. 692*, continuing strength in the exchange-rate value of the U.S. dollar against other major Western currencies had been, and tentatively still remains the primary distorting element in various financial markets. In the last several months, however, U.S. dollar strength appears may 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.

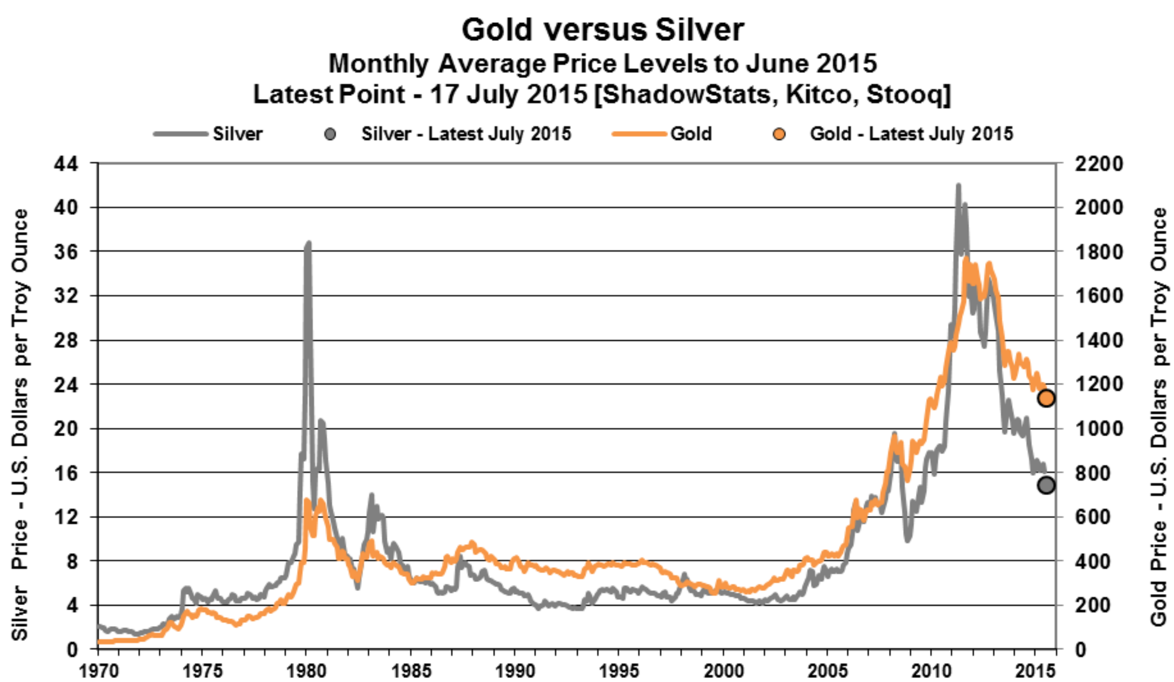
Such can be seen in the accompanying, updated graph on the trade-weighted U.S. dollar (Federal Reserve, major currencies weighted by relative trade activity), and the financial-weighted U.S. dollar (ShadowStats, major currencies weighted by relative volume in global foreign-exchange transactions). Along with continued waffling by Fed Chair as to when she will raise interest rates (still conditioned on U.S. economic activity, see *Commentary No. 729*), much weaker-than-expected headline economic numbers should continue to serve as near-term poison for the U.S. dollar. Perhaps one of those shocks will prove fatal for the U.S. currency, in the context of continued dissipation of apparent stability within domestic political conditions and the financial system.



The dollar's story continues to evolve unsteadily, but, as discussed in the *Opening Comments*, market recognition of the onset of a "new" recession still should begin to fall into place within the next several months. A "new" recession is unexpected and should have massive, negative impact on the U.S. dollar's exchange rate, when market expectations finally shift in that direction.







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, near-term negative price pressures on the precious metals should prove to be fleeting. 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

Noted in the *Opening Comments*, this section will be updated in the next *Commentary No. 737*, on July 22nd. The current version is available in *Commentary No. 735*.

REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (June 2015)

Headline June CPI-U Rose by 0.3% for Fifth Monthly Gain; Annual Inflation Was Up by 0.1%, the First Positive Reading Since December 2014. *[The following paragraphs largely are repeated from the* Opening Comments.*]* June 2015 CPI-U inflation rose month-to-month by 0.32%, in line with consensus expectations of a 0.3% headline gain [MarketWatch, Bloomberg]. Such was the fifth consecutive positive month-to-month inflation reading, following the "deflation" created by declining gasoline prices. Breaking above zero for the first time this year, year-to-year CPI-U inflation rose by a headline 0.12%, per the Bureau of Labor Statistics (BLS). That was the first headline gain in annual CPI-U inflation since December 2014.

Going forward, annual inflation readings should be increasingly positive, thanks to the continued rise in gasoline prices and a switch to positive seasonal adjustments for same in the CPI. Also, year-to-year inflation comparisons will be against the softer inflation numbers of a year ago, hit by weak oil and gasoline prices.

A sustained increase in energy prices would push headline CPI-U inflation sharply higher. Distorted oil industry economics and fluctuating Cartel gimmicks have been altering circumstances in favor of maintaining upside, short-term pricing pressures. Near-term selling pressure against the U.S. dollar should intensify, and that eventually should become the dominant factor for dollar-denominated oil prices, spiking oil prices and other inflationary pressures sharply.

Separately, although the pace of annual CPI-U inflation just has broken above zero for the first time in six months, year-to-year inflation is not and has not been quite as soft as indicated by headline reporting, when considered in the context of traditional CPI reporting and common experience.

[The next three paragraphs are not changed from the prior Commentary *except for updated internal references.]*

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 CPI 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 (see *Opening Comments*). 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.

____

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, July 17th, that headline, seasonally-adjusted June 2015 CPI-U rose month-to-month by 0.3%, up by 0.32% at the second decimal point, following a headline May gain of 0.4%, up by 0.44% at the second decimal point. Adjusted headline inflation was constrained slightly in June, by seasonal factors. On a not-seasonally-adjusted basis, the June 2015 CPI-U rose by 0.35% month-to-month, following an unadjusted 0.51% gain in May.

For the first time this calendar year, gasoline-inflation seasonal adjustments turned to the plus side. For June 2015, the BLS reported unadjusted gasoline prices up by 2.54% for the month, versus a 2.96% gain per the Department of Energy. Seasonally-adjusted gasoline prices rose by 3.35% in June, per the BLS. Nonetheless, aggregate energy-inflation seasonal adjustments were negative for the month, due to prices for electricity and gas services.

Major CPI-U Groups. Encompassed by the seasonally-adjusted gain of 0.32% in the June 2015 CPI-U [up by an unadjusted 0.35%], aggregate June energy inflation rose for the month by a seasonally-adjusted 1.74% [up by an unadjusted 3.05%]. In the other major CPI sectors, adjusted June food and beverage inflation was 0.26% [up by 0.16% unadjusted], while adjusted "core" inflation rose by 0.18% [up by 0.10% unadjusted] for the month. Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 1.76% in June 2015, versus 1.72% in May 2015.

Quarterly CPI-U. For second-quarter 2015, seasonally-adjusted CPI-U inflation rose at an annualized quarterly rate of 2.98%, having contracted at an annualized pace of 3.06% (-3.06%) in first-quarter 2015. Year-to-year and not-seasonally-adjusted, second-quarter 2015 CPI-U inflation showed an annual contraction of 0.04% (-0.04%), versus an annual contraction of 0.06% (-0.06%) in first-quarter 2015.

Year-to-Year CPI-U. Not seasonally adjusted, June 2015 year-to-year inflation for the CPI-U increased by 0.1%, up by 0.12% at the second decimal point, following a headline "unchanged" annual growth, down by 0.04% (-0.04%) at the second decimal point, in May 2015.

Year-to-year, CPI-U inflation would increase or decrease in next month's July 2015 reporting, dependent on the seasonally-adjusted monthly change, versus the adjusted, minimal headline 0.01% monthly inflation gain for July 2014. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for July 2015, the difference in July's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the June 2015 positive annual inflation rate of 0.12%.

Effectively, any headline increase in the seasonally-adjusted July 2015 CPI-U would add directly on top of the June 2015 annual inflation rate. Gasoline prices in July have continued to increase versus June, and, with positive seasonal adjustments, they are on track to push the aggregate annual CPI-U inflation rate higher still in the next report.

CPI-W. The June 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 0.34% (up by 0.38% unadjusted), versus an adjusted gain of 0.53% (up by 0.60% unadjusted) in May.

Quarterly CPI-W. For second-quarter 2015, seasonally-adjusted CPI-W inflation rose at an annualized quarterly rate of 3.35%, having contracted at an annualized pace of 4.41% (-4.41%) in first-quarter 2015. Year-to-year and not-seasonally-adjusted, second-quarter 2015 CPI-W inflation showed an annual contraction of 0.59% (-0.59%), versus an annual contraction of 0.68% (-0.68%) in first-quarter 2015.

Year-to-Year CPI-W. Unadjusted, June 2015 year-to-year CPI-W inflation fell by 0.38% (-0.38%), somewhat narrowed from the annual decline of 0.56% (-0.56%) in May 2015.

Chained-CPI-U. Initial reporting of unadjusted year-to-year inflation for the June 2015 C-CPI-U narrowed to an annual contraction of 0.13% (-0.13%), from an annual contraction of 0.32% (-0.32%) in May 2015.

Quarterly C-CPI-U. For second-quarter 2015, year-to-year and not-seasonally-adjusted C-CPI-U inflation showed an annual contraction of 0.34% (-0.34%), versus an annual contraction of 0.58% (-0.58%) in first-quarter 2015.

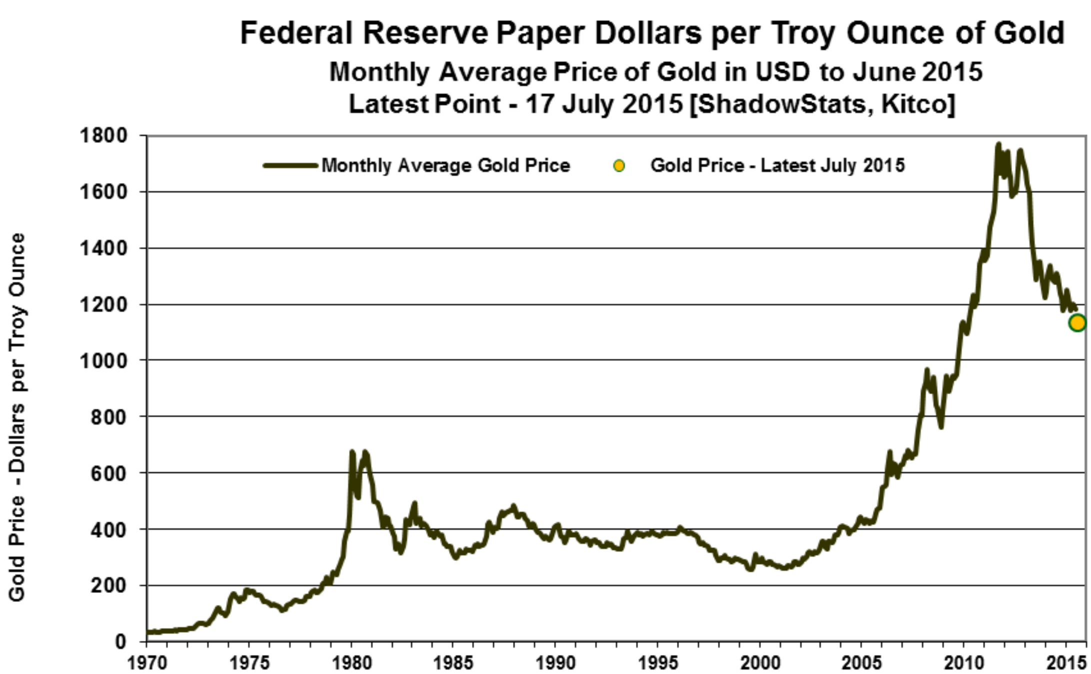
See the discussions in the earlier CPI *Commentary No. 721* and in the opening notes in the *CPI Section* of *Commentary No. 699* as to recent changes in the series. More-frequent revisions and earlier finalization of monthly detail are designed to groom the C-CPI-U series as the new Cost of Living Adjustment (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 3.7% in June 2015, versus 3.5% in May 2015.

The June 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 7.7% (7.72% for those using a second decimal point) year-to-year, versus 7.6% in May 2015.

Note: The ShadowStats-Alternate Consumer Inflation Measures largely have been reverse-engineered from the components of the BLS's CPI-U-RS series. That series provides an official estimate of historical inflation, assuming that all current methodologies were in place going back in time. The changes reflected there 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 from the various BLS changes in methodology (reversing the net aggregate inflation reductions by the BLS). The series are adjusted by ShadowStats for those aggregate changes, but the series otherwise are 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 June 2015 CPI-U/ShadowStats Inflation—

CPI-U: GOLD at $2,607 per Troy Ounce, SILVER at $152 per Troy Ounce
ShadowStats: GOLD at $12,080 per Troy Ounce, SILVER at $703 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 $2,607 per troy ounce, based on June 2015 CPI-U-adjusted dollars, and $12,080 per troy ounce, based on June 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 June 2015 CPI-U inflation, the 1980 silver-price peak would be $152 per troy ounce and would be $703 per troy ounce in terms of June 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—June 2015—Down for the Month, but Up for the Quarter, Real Annual Sales Growth Signaled a Deepening Downturn. Not adjusted for inflation, headline nominal retail sales declined by 0.27% (-0.27%) in June 2015, following a downwardly-revised gain of 1.03% [previously up by 1.21%] in May. Year-to-year growth in June 2015 was 1.53%, versus a downwardly-revised 2.26% [previously up by 2.65%] in May 2015, all as detailed in *Commentary No. 734* of July 14th.

Headline Reporting of Real Retail Sales. Based on today's (July 17th) reporting of headline monthly inflation of 0.32% in the June 2015 CPI-U, and in the context of a 0.44% gain in the May 2015 CPI-U, June 2015 real retail sales fell month-to-month by a headline 0.59% (-0.59%), offsetting a downwardly revised 0.58% real monthly gain in May.

Where first-quarter 2015 real retail sales contracted at an unrevised annualized pace of 1.02% (-1.02%) [initially down by 1.56% (-1.56%)], the annualized pace of quarterly growth for second-quarter 2015 was a positive 2.98%, versus what had been indicated as 4.61%, based solely on the initial reporting for April and May.

Real Year-to-Year Growth Showed Intensifying Recession Signal. With seasonally-adjusted headline year-to-year CPI-U inflation up by 0.18% in June 2015, and "unchanged" (up by 0.03%) in May 2015, year-to-year change in June 2015 real retail sales was 1.34%, versus a downwardly-revised 2.23% (previously 2.62%) annual gain in May 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 the April reading, the level of real annual growth in May 2015 still was consistent with that circumstance, and the headline June 2015 number now has generated an intensified signal of imminent recession. 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.

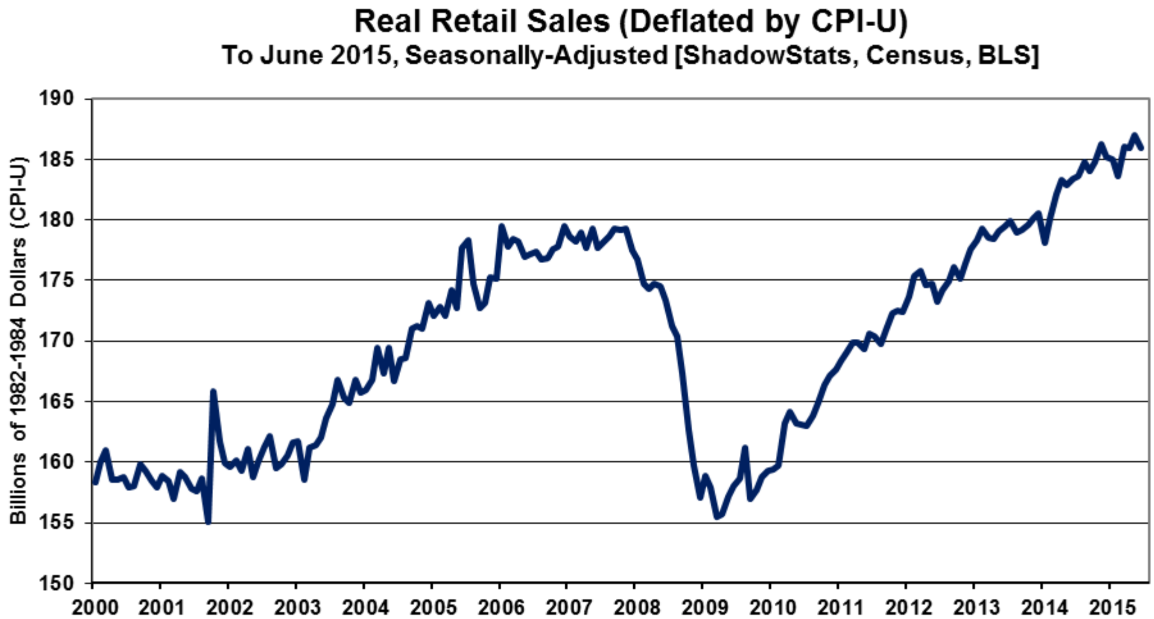
As official consumer inflation moves higher in the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by the general pattern of declining real earnings difficulties highlighted in the next section—these data should resume trending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

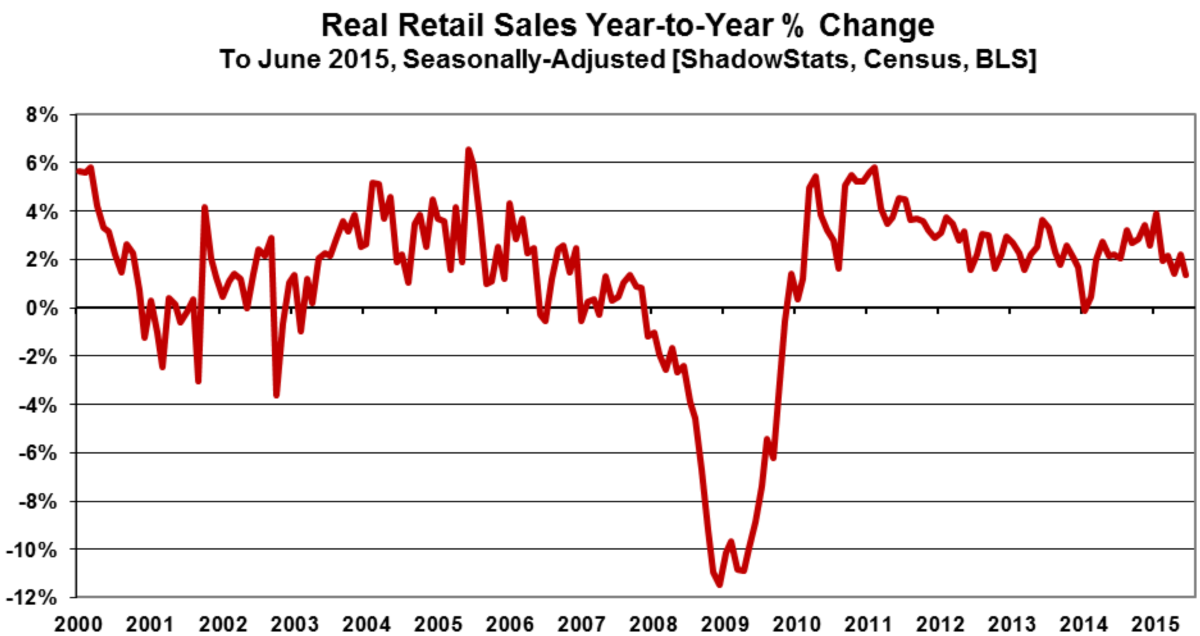
Real Retail Sales Graphs. The first of the four graphs following shows the level of real retail sales activity (deflated by the CPI-U) since 2000; the second graph shows year-to-year percent change for the same period. The level of headline monthly activity turned lower for the third consecutive month, in February 2015, showing signs of faltering sales. March showed some rebound, but that quarter remained in contraction. April was down, but headline activity bounced back in May, only to be offset by a decline in June sales.

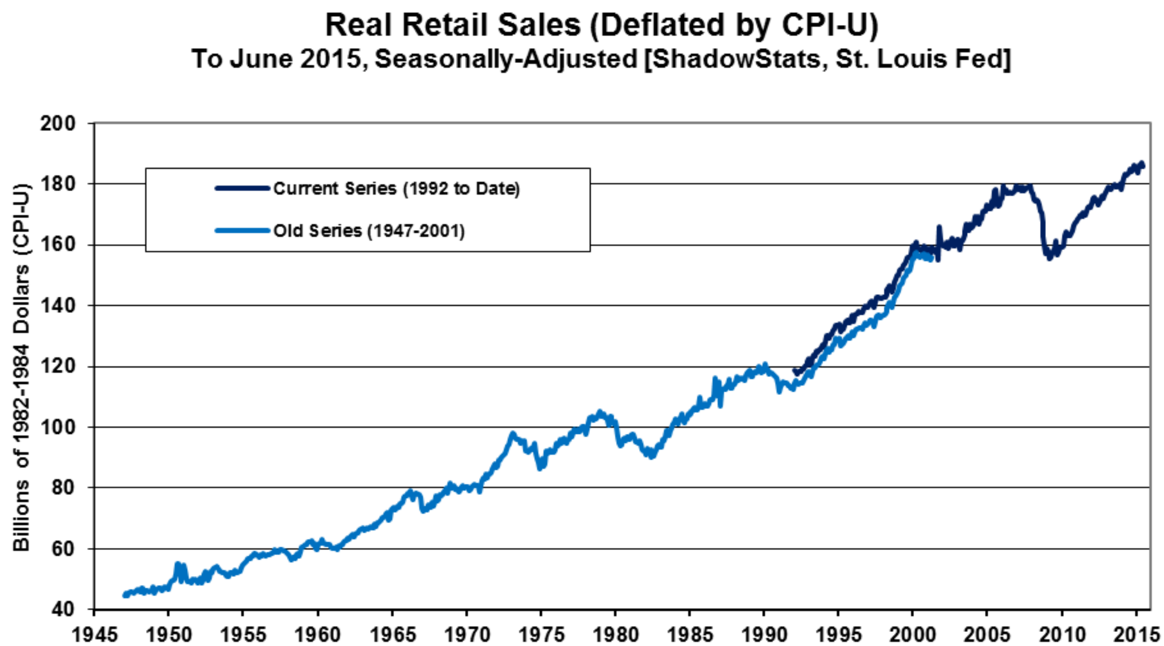
Year-to-year activity, which had plunged to a near-standstill in January and February 2014, had bounced back irregularly, hitting its recent high level in January 2015, spiked by negative inflation at the time but it fell back to two-percent in February and March 2015, and below two-percent in April 2015. Annual growth bounced higher in May 2015, but the recession signal remained in play, with June 2015 activity dropping well below the 2.0% recession signal. 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.

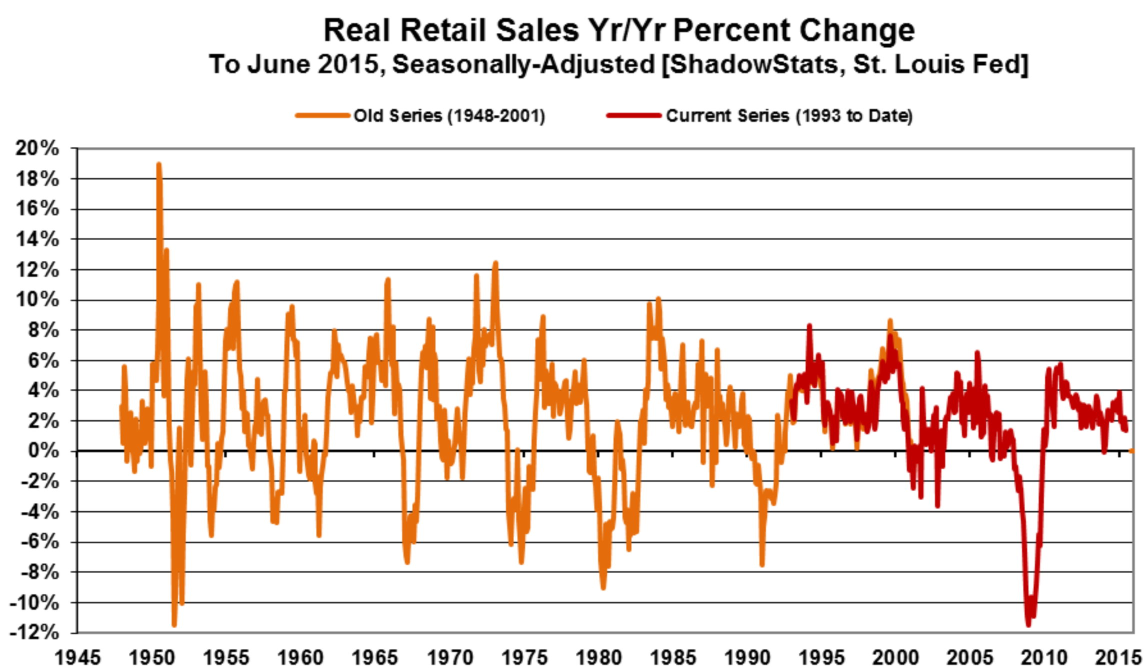
Irrespective of first-quarter 2015 reporting weakness, the apparent "recovery" in the real retail sales series (and other series such as industrial production and GDP) up through year-end 2014 was due largely to the understatement of the rate of inflation used in deflating retail sales and other series. 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 Retail Sales (Deflated by CPI-U)
To June 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 June 2015, Seasonally-Adjusted [ShadowStats, Census, BLS]
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015





Real (Inflation-Adjusted) Average Weekly Earnings—June 2015—Real Earnings Plunged in Second-Quarter 2015. Coincident with today's (July 17th) reporting of a headline, seasonally-adjusted monthly gain of 0.3% (0.34% at the second decimal point) in the June 2015 CPI-W, the BLS also published real average weekly earnings for the month of June (deflated by CPI-W). The gain in the June CPI-W followed a headline monthly gain of 0.5% (0.53%) in the May 2015 inflation measure.

Quarterly Contractions. With full initial reporting in place for second-quarter 2015, real average weekly earnings for both the "all employee" and the "production and nonsupervisory employees" categories showed sharp quarterly contractions. With both series, first-quarter real growth had been spiked by negative inflation generated by falling gasoline prices.

For all private employees in the nonfarm payroll series, second-quarter 2015 real earnings (deflated by the CPI-U) fell at an annualized pace of 1.55% (-1.55%), versus an annualized gain of 5.57% in first-quarter 2015.

For the production and nonsupervisory employees, second-quarter 2015 real earnings (deflated by the CPI-W) showed an annualized quarter-to-quarter contraction of 2.55% (-2.55%), versus a 6.22% 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 fell by 0.24% (-0.24%) for the month of June 2015, versus a revised contraction of 0.25% (-0.25%) [previously "unchanged," with growth at 0.0% (up by 0.049% at the third decimal point, rounding to 0.0%)] for May, and an unrevised April decline of 0.23% (-0.23%). The May revision fully reflected regular surveying and seasonal-factor instabilities by the BLS as to earnings.

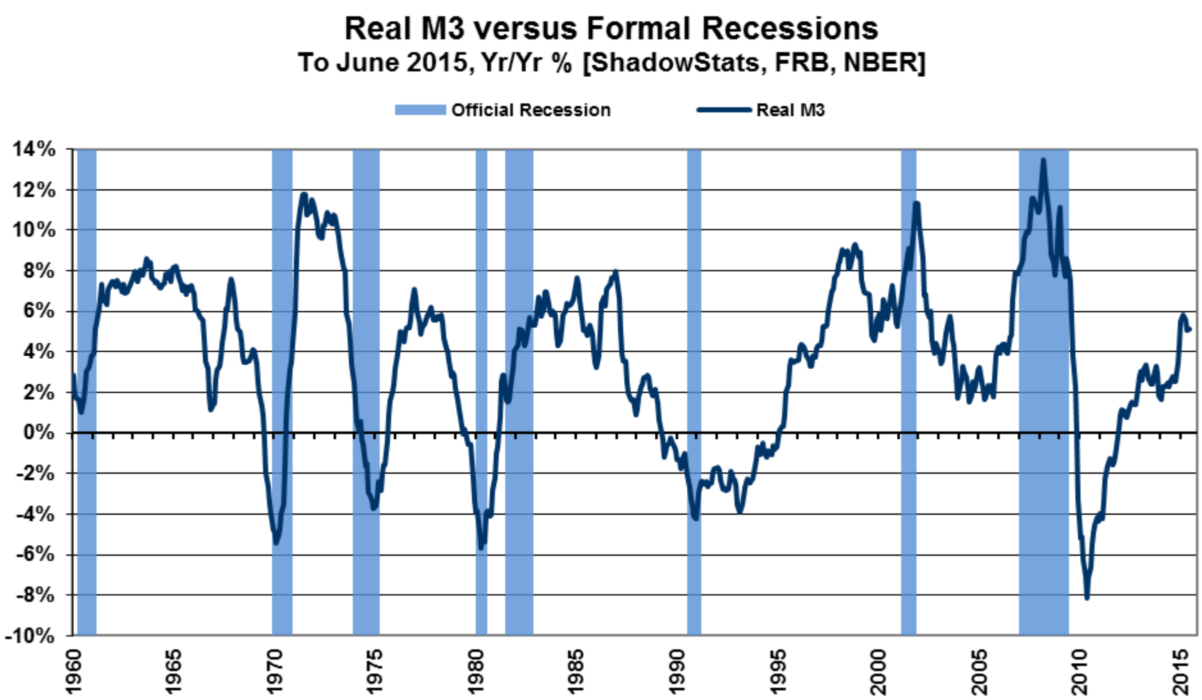
Before inflation adjustment, nominal June earnings rose by 0.1%, versus a revised gain in nominal May earnings of 0.3% [previously up by 0.6%] in the month, and an unrevised decline in April earnings of 0.2% (-0.2%).

Year-to-year and seasonally-adjusted, June 2015 real average weekly earnings showed a gain of 1.95%, down from a revised annual gain in May 2015 of 2.22% [previously 2.54%], versus an unrevised 2.33% gain in in April 2015. Unadjusted, year-to-year change slowed to 0.70% in June, from an unrevised 2.37% gain in May and an unrevised 2.44% gain in April. 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.

Real (Inflation-Adjusted) Money Supply M3—June 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 June 2015 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for June 2015 annual growth held at 5.1%, versus an unrevised 5.1% in May 2015. Such reflected an offsetting 0.2% increase in the pace of nominal annual headline M3 growth (see *Commentary No. 733*) versus a positive 0.2% swing in the annual inflation rate.

The signal for a downturn or an intensified downturn is generated when annual growth in real M3 first turns negative in a given cycle; the signal is not dependent on the depth of the downturn or its duration. Breaking into positive territory does not generate a meaningful signal one way or the other for the broad economy. The current "new" downturn signal was generated in December 2009, even though there had been no upturn since the economy purportedly 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 (see *Commentary No. 731*).



Despite the purported, ongoing recovery shown in headline GDP activity before first-quarter 2015, a renewed downturn in official data is underway and should gain official recognition in the near future of a "new" or double-dip recession (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.

RESIDENTIAL CONSTRUCTION—HOUSING STARTS (June 2015)

Despite Nonsense Reporting on Multi-Unit Housing Starts; Broad Activity Remained in a Smoothed Pattern of Stagnation. The aggregate housing-starts series continues to be worthless other than as viewed in terms of its aggregate six-month moving average. Current headline activity was boosted by heavily-distorted, multiple-unit housing starts, which appear to have spiked in response to a regulatory or tax change/expiration in the New York area. Such happens every couple of years. As a sense of the ridiculous nature of the headline reporting, consider that housing starts for five-units or more rose by 26.6% month-to-month, 55.0% year-to-year, and neither the monthly nor annual gain was close to being statically significant.

Consider, too, that the aggregate housing-starts count (these are actively-worked-on units) rose at an annualized quarterly pace of 87.4%. That growth purportedly was supported by annualized quarterly growth of 0.5% in related construction employment. Reporting nonsense aside, the regular headline data and details follow.

Smoothed Numbers. A general pattern of low-level stagnation continued in the broad series, as best viewed in terms of the longer-range historical graph of aggregate activity, seen at the end of this section, and in the context of flat-to-down trending activity, smoothed by six-month moving averages, as shown in graphs in the *Opening Comments* section.

Reflected in those smoothed graphs, the aggregate housing-starts series ticked minimally higher in June, reflecting a downside movement in the single-unit starts activity, but a jump in the multiple-unit starts category. Although there had been a minor upside trend in the aggregate series into the latter part of 2014, total housing-starts activity has remained well below any recovery level.

Over time, the bulk of the extreme, reporting instability and the minimal uptrend in the aggregate series has been due largely to particularly-volatile reporting in the multiple-unit, housing-starts category (apartments, etc.). Recent activity in multiple-unit starts actually has recovered to above pre-recession activity, in the context of extreme month-to-month volatility. Even so, the recent impact of the current recovery in multiple-unit activity largely has been lost in the detail of total housing starts.

***Consumer Liquidity Issues Still Impair Housing Activity*.** On a per-structure basis, activity in housing starts is dominated by the single-unit housing starts category, which has remained stagnant on a smoothed basis—at a low level of activity—since hitting bottom in early-2009. The private housing sector never recovered from the business collapse of 2006 into 2009.

The underlying problem here remains intense, structural-liquidity woes besetting the consumer. That circumstance, during the last eight-plus years of economic collapse and stagnation, has continued to prevent a normal recovery in broad U.S. business activity, as discussed 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.

June 2015 Housing-Starts Headline Reporting. The Census Bureau reported this morning, July 17th, a statistically-insignificant, seasonally-adjusted headline monthly gain of 9.8% +/- 23.4% (all confidence intervals are expressed at the 95% level) in June 2015 housing starts. That followed a revised decline of 10.2% (-10.2%) [previously down by 11.1% (-11.1%)] in May, and a revised gain of 24.7% [previously up by 22.1%, initially up by 20.2%] in April. Net of prior-period revisions, June 2015 starts rose by 13.3% for the month.

Year-to-year change in the seasonally-adjusted, aggregate June 2015 housing-starts measure was a statistically-significant gain of 26.6% +/- 22.9%, versus a revised annual gain of 8.4% [previously up by 5.1%] in May 2015, and a revised gain of 14.5% [previously up by 12.1%, initially up by 9.2%] in April 2015.

The headline June 2015 monthly gain of 9.8% for total housing starts reflected a headline monthly decline of 0.9% (-0.9%) in the "one unit" category, and a jump of 28.6% in the “five units or more” category. Not one of those headline changes was close to being statistically-significant.

***By-Unit Category (See Graphs in the* Opening Comments).** Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit structure housing starts—generally for individual consumption, resulting in new home sales—versus multi-unit structure starts that generally reflect the building of rental and apartment units.

Housing starts for single-unit structures in June 2015 fell month-to-month by a statistically-insignificant 0.9% (-0.9%) +/- 13.5%, following a revised decline of 6.0% (-6.0%) [previously down by 5.4% (-5.4%)] in May, and a revised 18.0% [previously 15.4%, initially 16.7%] gain in April. Single-unit starts for June 2015 showed a statistically-significant year-to-year annual gain of 14.7% +/- 11.8%, versus a revised 8.5% [previously 6.8%] annual gain in May 2015, and a revised annual gain of 15.0% [previously up by 12.5%, initially up by 14.7%] in April 2015.

Housing starts for apartment buildings (generally 5-units-or-more) in June 2015 rose month-to-month by a statistically-insignificant 28.6% +/- 64.4%, following a revised decline of 15.1% (-15.1%) [previously down by 18.5% (-18.5%)] in May, and revised gain of 40.2% [previously up by 37.6%, initially up by 31.9%] in April. The statistically-insignificant June 2015 year-to-year gain of 55.0% +/- 73.7%, followed a revised annual gain of 9.8% [previously up by 2.6%] in May 2015, and a revised gain of 11.5% [previously up by 9.5%, initially a a decline of 0.5% (-0.5%)] in April 2015.

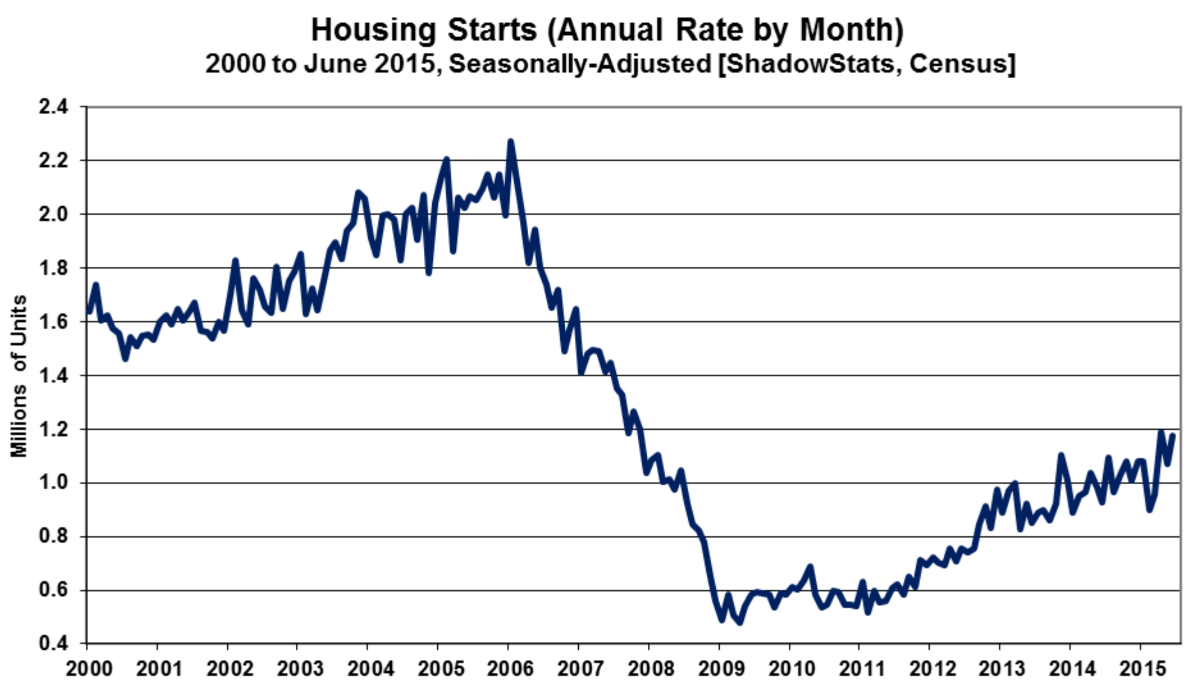
Expanding the multi-unit structure housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category.

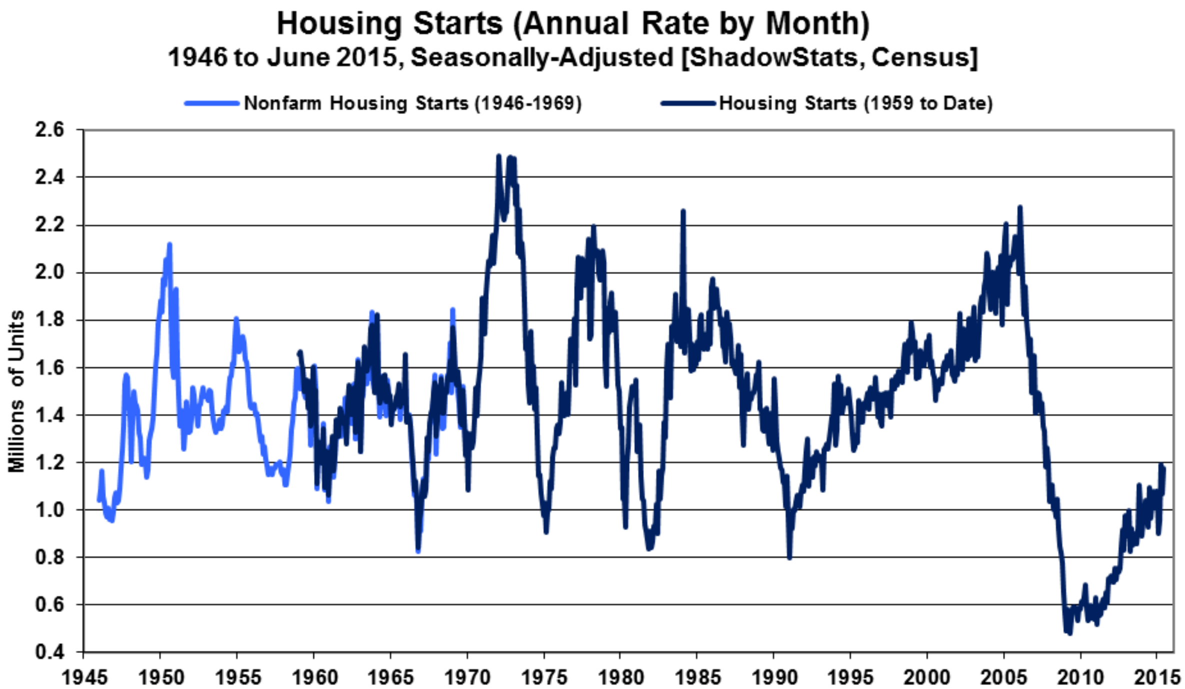
Accordingly, the statistically-insignificant June 2015 monthly gain of 9.8% in aggregate housing starts was composed of a statistically-insignificant decline of 0.9% (-0.9%) in one-unit structures, combined with a statistically-insignificant monthly gain of 29.4% in the multiple-unit structures category (2-units-or-more, including the 5-units-or-more category). Again, these series are graphed in the *Opening Comments* section.

Housing Starts Graphs. Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,174,000 in June 2015, versus a revised 1,069,000 (previously 1,036,000) in May 2015. The scales of the accompanying aggregate graphs in this section use those annualized numbers.

Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the revised headline 236,000 (previously 211,000, initially 191,000) month-to-month gain in the annualized April 2015 numbers was larger than any actual total (non-annualized) level of monthly starts ever, for single month. That is since related starts detail was first published after World War II.

Accordingly, the monthly rate of 97,833 units in June 2015, instead of the annualized 1,374,000-headline number, is used in the scaling of the series of graphs shown in the *Opening Comments* section. With the use of either scale of units, however, appearances of the graphs and the relative monthly, quarterly and annual percentage changes are otherwise identical.





The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of sales then was down 79% (-79%) from the January 2006 pre-recession peak. Against the downside-spiked low in April 2009, the June 2015 headline number was up by 146%, but it still was down by 48% (-48%) from the January 2006 series high. Shown in the historical perspective of the post-World War II era, current aggregate activity is trending stagnant at levels (stagnant-to-lower levels for single-unit starts) that otherwise have been at the historical troughs of recession activity of the last 70 years, as evident in the preceding and final graph of this section.

____

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 mixed reporting in headline numbers, market expectations for business activity nonetheless respond primarily 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 now-minimal current headline contraction in first-quarter 2015 GDP, expectations for relatively-positive headline growth in second-quarter 2015 likely will be surprised to the downside. Headline reporting of monthly economic numbers increasingly should turn lower, in the weeks and months ahead (see *Opening Comments*).

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 turned positive in June 2015, for the first time in six months, and with early July indicators signaling higher inflation in the next monthly reporting. Separately, year-to-year CPI inflation for the balance of the year increasingly will be going against negative year-ago numbers.

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. 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:

Industrial Production Benchmark Revision. The Federal Reserve Board will publish a major benchmark revision and overhaul of the industrial production series on Tuesday, July 21st, just nine days shy of a July 30th benchmark revision to the GDP by the Bureau of Economic Analysis (BEA). The new production detail should be incorporated into the GDP revisions.

The industrial-production revisions will correct historical detail with more-complete information, where it has become available, along with redefinitions back to 1972. In addition to the redefinitions, the series also will be re-indexed from 2007 = 100, to 2012 = 100. Last year's (March 2014) benchmark revision largely was incomplete, lacking detail from the regular Census of Manufactures (2012), which apparently had been delayed in its release by the government shutdown of October 2013. As a result, what could have been major downside revisions to 2012 and 2013 industrial production activity (and broader GDP activity) never took place (see *Commentary No. 613*). This benchmarking should correct that.

ShadowStats will cover the production benchmarking in *Commentary No. 737* of July 22nd, along with a discussion of the pending benchmark revisions to the GDP.

Existing- and New-Home Sales (June 2015). June 2015 existing-home sales are due for release on Wednesday, July 22nd, from the National Association of Realtors (NAR), with the June 2015 new-home sales report due from the Census Bureau on Friday, July 24th. The Existing-Home Sales detail will be covered in ShadowStats *Commentary No. 737* of July 22nd, New-Home Sales detail will be covered in ShadowStats *Commentary No. 738* of July 27th.

Still impaired by negative, underlying pressures from stressed consumer liquidity (see the detailed review of consumer conditions in *Commentary No. 734*), as updated in today's *Opening Comments* and discussed in the June 2015 Housing-Starts detail, prospects for rising home-sales activity remain bleak.

May Existing-Home Sales rallied strongly. Yet, the longer-term trend in the headline numbers has been flat-to-minus, with some catch-up downside month-to-month activity a good possibility for June 2015 reporting, despite likely positive-consensus expectations.

Smoothed for extreme and nonsensical monthly gyrations, an ongoing pattern of stagnation or downturn also should continue in play for June 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 June, again, despite likely positive-consensus expectations. Reflecting deteriorating consumer issues, both the New- and Existing-Home Sales series increasingly should reflect downside volatility in their headline reporting.

____

