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

COMMENTARY NUMBER 745
July CPI, Real Retail Sales and Earnings, Recession and the FOMC

August 19, 2015

Unfolding "New" Recession Likely Will Override the Impact of Any Fed Action, Inaction or Continued Befuddlement

Down in Second-Quarter 2015, Real Earnings Are on Track for Third-Quarter Decline

Monthly Real Retail Sales Rose by 0.4% in July, with Annual Growth Still Signaling Recession

July Annual Inflation: 0.2% (CPI-U), -0.3% (CPI-W), 7.8% (ShadowStats)

PLEASE NOTE: The next regular Commentary, *Wednesday, August 26th, will cover July New Orders for Durable Goods and New- and Existing-Home Sales. A further missive on Thursday, August 27th will review the first revision to second-quarter 2015 GDP.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

No Recovery Here, as the New Recession Continues to Unfold. What likely will gain recognition in the months ahead as a new recession has continued to surface in headline detail of regular, monthly economic reporting. That reporting has been in the three weeks since the publication of the annual GDP benchmark revision, and the initial estimate of second-quarter 2015 GDP growth (see *Commentary No. 739*). Headline reporting in the weeks ahead should become increasingly negative, with some possible downside reporting shocks of a severity that could become major movers of the currency and equity markets, irrespective of Fed actions. Discussed briefly in the *Hyperinflation Watch*, whatever interest rate action the FOMC takes or does not take, likely will be trumped by increasingly negative economic data.

GDP Revisions and Reporting. The initial second-quarter 2015 GDP estimate of annualized 2.32% real growth was published along with the downside, annual benchmark revisions to the GDP series on July 30th. At that time, the first-quarter 2015 GDP was revised to a 0.64% gain, from a previously reported contraction of 0.17% (-0.17%). The Bureau of Economic Analysis (BEA) will publish its second estimate of, first revision to second-quarter 2015 GDP next Thursday, August 27th, but all other prior GDP reporting is locked in until next year's benchmarking (except the GDI).

On the downside, either for the second-quarter GDP revisions, or as an early indicator of third-quarter GDP activity, the June 2015 trade deficit (see *Commentary No. 740*) suggested some small downside revision to second-quarter GDP. Reporting of July 2015 industrial production was sharply negative for both second- and third-quarter GDP reporting (see *Commentary No. 743*), while the July labor numbers (see *Commentary No. 741*) also had negative implications for both quarters.

One negative for third-quarter GDP has been in place for some months, with ongoing and deepening quarterly and annual contractions in real new orders for durable goods, net of commercial aircraft. Those orders were updated most recently in *Commentary No.738*.

On the plus-side for the second-quarter GDP were upside revisions to retail sales (see *Commentary No. 743* and today's *Reporting Detail* section), and upside revisions to housing starts and construction spending (see *Commentary No. 740* and *Commentary No. 744*).

Where reporting in underlying monthly economic detail has been mixed, subsequent to the first estimate of second-quarter GDP, generally it has been suggestive of some net downside revision to the second-quarter GDP, tied particularly to the trade deficit and industrial production series.

Potential Recessions in GDP and GDI. Of particular interest in the August 27th GDP report will be the initial estimates of second-quarter 2015 Gross National Product (GNP) and Gross Domestic Income (GDI). GNP is the broadest measure of domestic economic activity, where GDP is GNP net of the trade flows in factor income (interest and dividend payments). GNP came out of the benchmark revisions with an annualized first-quarter 2015 contraction of 0.15% (-0.15%).

GDI, which is the theoretical income-side equivalent to the GDP's consumption side, came out of the benchmark revisions with annualized quarterly real growth of just 0.28%, subject to further possible downside revision.

Both series have the potential for generating negative surprises, which potentially could accelerate recognition of a new formal downturn in U.S. economic activity.

Today's *Commentary* (August 19th). Today's opening paragraphs reviewed the broad economic circumstance. The balance of today's *Commentary* concentrates on reporting of the July 2015 CPI and related Real Retail Sales and Real Earnings.

The *Hyperinflation Watch* section includes a discussion on current circumstances facing the U.S. dollar, along with the updated gold and dollar graphs that usually accompany the CPI *Commentary*. Last week's August 10th *No. 742 Special Commentary: A World Increasingly Out of Balance*, updated the general economic and inflation outlook, supplemented by the *Opening Comments* of the August 17th *Commentary No. 743*. An updated *Hyperinflation Outlook Summary* will return shortly, excerpted from those missives.

The *Week Ahead* section previews detail of the Existing- and New Home Sales, New Orders for Durable Goods and the second estimate of second-quarter GDP, all due for release within the next eight days.

Consumer Price Index (CPI)—July 2015—Headline CPI-U Rose by 0.1% for Sixth Consecutive Monthly Gain; Annual Inflation Was Up by 0.2% for Second Consecutive Positive Reading. July 2015 CPI-U inflation rose month-to-month by 0.13%, below consensus expectations for a 0.2% headline gain [MarketWatch, Bloomberg]. Such was the sixth consecutive positive monthly inflation reading, following the brief "deflation" created by declining gasoline prices. Above zero for the second consecutive month, year-to-year CPI-U inflation rose by a headline 0.17%, per the Bureau of Labor Statistics (BLS). That was the second headline annual gain in CPI-U inflation since December 2014.

Going forward, headline annual inflation readings should be increasingly positive, thanks to relatively firm gasoline prices and further positive seasonal adjustments for in the next couple of months. Also, year-to-year inflation comparisons in the months ahead will be going against softer the inflation numbers of a year ago that were hit by weak oil and gasoline prices.

A sustained increase in energy prices would push headline CPI-U inflation sharply higher, and the current downturn in oil prices should prove fleeting. Despite recent renewed weakness, distorted oil industry economics and fluctuating Cartel gimmicks still have been altering circumstances in favor of maintaining upside, short-term pricing pressures. Near-term selling pressure against the U.S. dollar also should mount and then intensify, quickly becoming the dominant factor spiking dollar-denominated oil prices and other inflationary pressures.

Common-Experience Reality. The headline pace of July 2015 annual CPI-U inflation out of the Bureau of Labor Statistics (BLS) held just above zero for the second time since December 2014. Yet, the reaction we get from Main Street U.S.A. indicates that inflation is running well above the government's headline estimates. It all is a matter of definition. Indeed, modern gimmicked-reporting definitions aside, traditional pre-1980 inflation reporting much more closely reflected common experience.

Contrary to traditional concepts, today's headline CPI no longer measures the cost of living of maintaining a constant standard of living. 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. The government's CPI measures have been redesigned primarily for the government's financial needs, to cut cost-of-living adjustments for Social Security, not to provide the public with an inflation measure of any practical, personal value.

With the CPI no longer useful for personal financial considerations, those who set or target their income or investment growth to the government's deliberately-understated headline CPI simply cannot stay even with inflation, unless they massively exceed their targets (see further detail un the *Public Commentary on Inflation Measurement*).

ShadowStats Alternate Inflation Measures. Allowing for the earlier, traditional CPI methodologies, common-experience consumer inflation is not close to being flat, zero or minus on a year-to-year basis. The ShadowStats Alternate Inflation Measures of year-to-year inflation notched higher in the latest reporting. Based on reporting methodologies of 1990, July 2015 annual inflation rose to about 3.8%, from 3.7% in June. Based on 1980 reporting methodologies, July 2015 annual inflation rose to roughly 7.8%, from 7.7% in June 2015.

CPI-U. The headline, seasonally-adjusted July 2015 CPI-U rose month-to-month by 0.13%, following a headline June gain of 0.32%. Adjusted headline inflation was boosted slightly in July by seasonal factors. On a not-seasonally-adjusted basis, the July 2015 CPI-U effectively was flat, up by just by 0.01% month-to-month, following an unadjusted 0.25% gain in June.

Encompassed by the seasonally-adjusted gain of 0.13% in the July 2015 CPI-U [up by an unadjusted 0.01%], aggregate July energy inflation rose for the month by a seasonally-adjusted 0.06% [down by an unadjusted 0.46% (-0.46%)]. In the other major CPI sectors, adjusted July food and beverage inflation was 0.16% [up by 0.13% unadjusted], while adjusted "core" inflation rose by 0.13% [up by 0.03% unadjusted] for the month. Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 1.80% in July 2015, versus 1.76% in June 2015.

Not seasonally adjusted, July 2015 CPI-U year-to-year inflation increased by 0.17%, following a headline annual gain of 0.12%.

CPI-W. The July 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 0.13% (unchanged at 0.00% unadjusted), versus an adjusted gain of 0.34% (up by 0.38% unadjusted) in June.

Unadjusted, July 2015 year-to-year CPI-W inflation fell by 0.31% (-0.31%), slightly narrowed from the annual decline of 0.38% (-0.38%) in June 2015. The recent annual contractions in the unadjusted CPI-W hit their nadir in April 2015, down year-to-year by 0.82% (-0.82%).

Chained-CPI-U. Reflecting the quarterly revision process and finalization of headline inflation for third-quarter 2014, initial reporting of unadjusted year-to-year inflation for the July 2015 C-CPI-U was a contraction of 0.12% (-0.12%), versus a revised annual contraction in June 2015 of 0.11% (-0.11%) [previously down by 0.13% (-0.13%)].

The quarterly revisions were minimal, but consistently to the upside. The biggest change was in the just-finalized third-quarter 2015, where annual inflation in C-CPI-U revised to 1.61% from the previously-estimated 1.58%.

Real Retail Sales—July 2015—Recession Signal Continued. Not adjusted for inflation, headline nominal retail sales rose by 0.57% in July 2015, following an upwardly revised "unchanged" reading of 0.00% in June 2015, as detailed in *Commentary No. 743*. Year-to-year growth in July 2015 nominal retail sales was 2.43%, versus an upwardly revised 1.83% annual gain in June 2015.

Headline Real Retail Sales Activity. Based on headline monthly CPI-U inflation of 0.13% in July 2015, and in the context of a 0.32% gain in the June CPI-U, July 2015 real retail sales rose month-to-month by 0.44%, more than offsetting the revised monthly decline of 0.31% (-0.31%) in June real retail sales.

Where first-quarter 2015 real retail sales contracted at an unrevised annualized pace of 1.02% (-1.02%), annualized growth for second-quarter 2015 revised to higher 3.78%, while third-quarter growth—based solely on the initial reporting for July—showed an early indication of 1.92%.

With seasonally-adjusted headline year-to-year CPI-U inflation up by 0.21% in July 2015, and up by 0.18% in June 2015, year-to-year growth in July 2015 real retail sales was 2.43%, versus an upwardly-revised 1.83% annual gain in June 2015. The regular graphs of the level of real retail sales activity and year-to-year growth are found in the *Reporting Detail* section, *Graphs 9* to *12*.

Recession Signal. In normal economic times, annual real growth at or below 2.0% signals an imminent recession. That signal had been given most recently in February, April and June 2015, indicating a deepening downturn. Although those readings have been interspersed with somewhat higher readings in March, May and July, the average level of real year-to-year growth for the last six months has been 1.96%. Current reporting remains consistent with a signal of imminent recession.

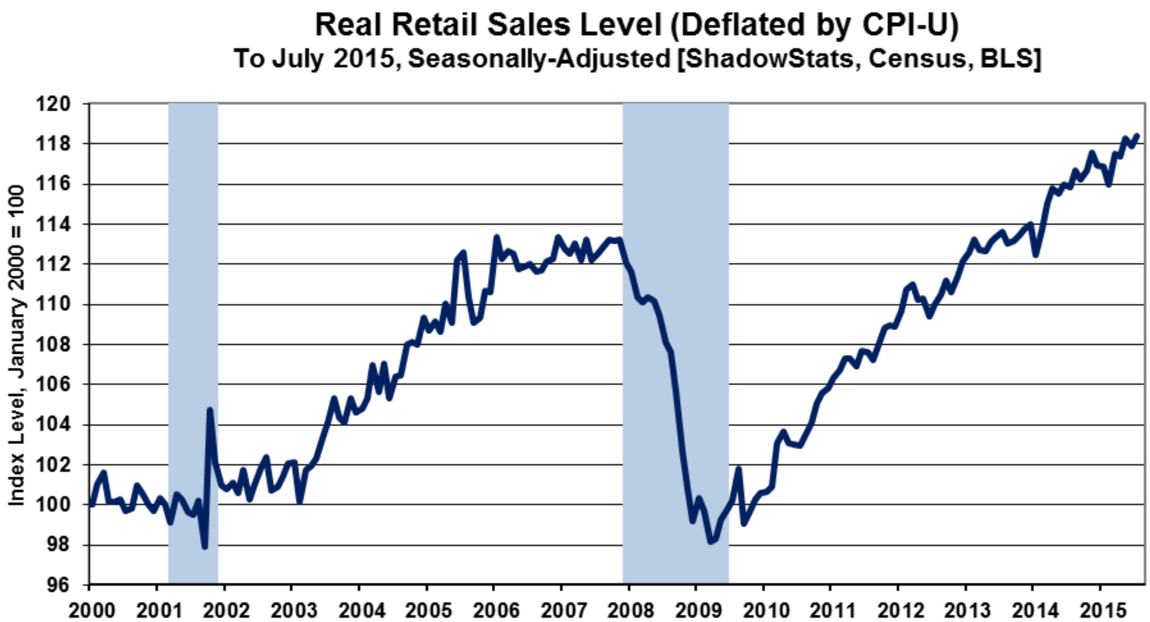
Discussed and updated in the August 17th *Commentary No. 743*, the primary issues constraining headline retail sales activity remain intense, structural-liquidity woes besetting the consumer. That circumstance—in the last eight-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity. Without real growth in household income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable growth real personal consumption.

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.

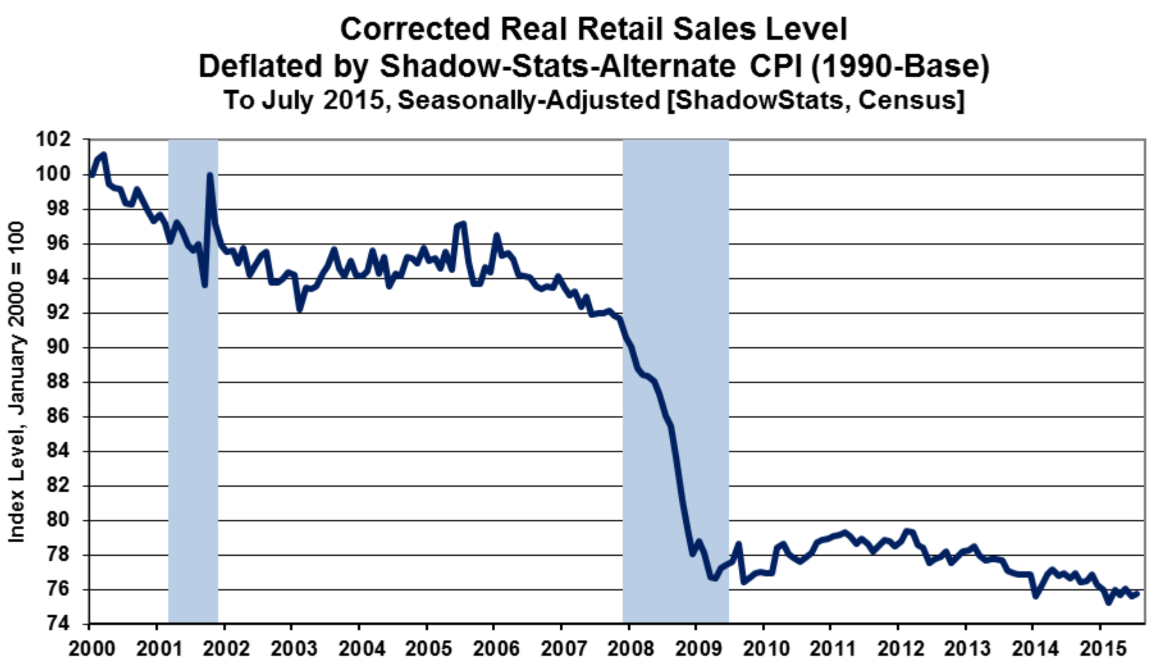
Corrected Real Retail Sales—July 2015. The apparent “recovery” in *Graph 1* of headline real retail sales generally continued into late-2014, although headline reporting turned down in December 2014, into first-quarter 2015 and has turned higher, again. Nonetheless, headline real growth in retail sales continues to be overstated heavily, due to the understatement of the rate of inflation used in deflating the retail sales series. 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 of *Graph 1* with *Graph 9* of real retail sales in the *Reporting Detail* section.

Graph 1: Headline Real Retail Sales Level, Indexed to January 2000 = 100



Graph 2: "Corrected" Real Retail Sales Level, Indexed to January 2000 = 100



Instead of being deflated by the CPI-U, the "corrected" real retail sales numbers—in *Graph 2*—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 average weekly earnings (see *Graph 3*), consumer confidence, broad unemployment and in most housing statistics (see *Commentary No. 743* and *Commentary No. 744*). 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—July 2015—Continuing Downtrend Unfolding for Third-Quarter 2015. Coincident with the reporting of a headline, seasonally-adjusted monthly gain of 0.13% in the July 2015 CPI-W, the BLS also published real average weekly earnings for the month of July (deflated by CPI-W). The gain in the July CPI-W followed a headline monthly gain of 0.34% in the June 2015 inflation measure.

In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings in July 2015 effectively were "unchanged," up by 0.01%, that was against a revised, also effectively were "unchanged," up by 0.01%, reading for June, an unrevised May decline of 0.25% (-0.25%), and an unrevised April decline of 0.23% (-0.23%). The June revision fully reflected regular surveying, reporting and seasonal-factor instabilities common to the BLS as to earnings.

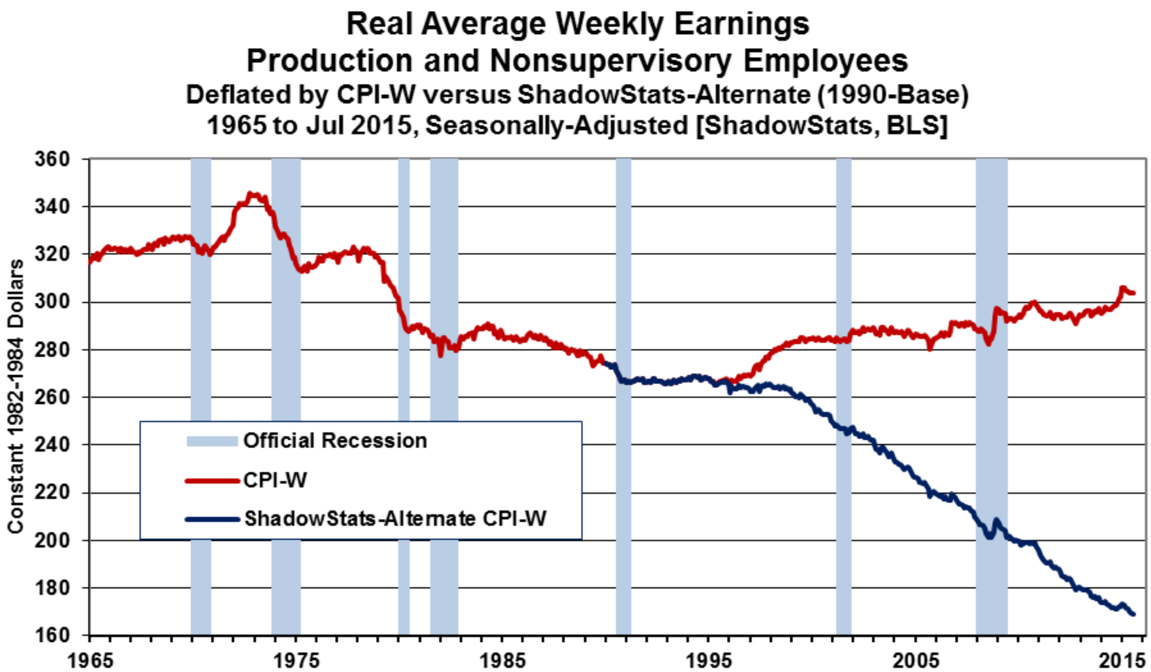
Before inflation adjustment, nominal July earnings rose by 0.1%, versus a revised gain in June of 0.3% an unrevised gain of 0.3% in May earnings, and an unrevised decline in April earnings of 0.2% (-0.2%).

Quarterly Contractions. Second-quarter 2015 real earnings showed a revised annualized contraction of 2.22% (-2.22%), versus an unrevised 6.22% annualized quarterly gain in first-quarter 2015. Based solely on the initial July reporting, third-quarter 2015 growth is on track to show an annualized contraction of 0.26% (-0.26%).

Annual Change. Year-to-year and seasonally-adjusted, July 2015 real average weekly earnings showed a gain of 2.10%, versus an upwardly revised 2.21% gain June 2015, an unrevised 2.22% gain in May 2015 and an unrevised 2.33% gain in in April 2015. Unadjusted, year-to-year growth was 2.22% in July, versus a revised 0.65% in June, a revised 2.42% in May and an unrevised 2.44% 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.

Graph plots this series, showing 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.

Graph 3: Real Average Weekly Earnings (Deflated by CPI-W and ShadowStats)



[The* Reporting Detail *section includes expanded detail of the July 2015 CPI reporting and related series such as Real Retail Sales and Real Earnings.]

HYPERINFLATION WATCH

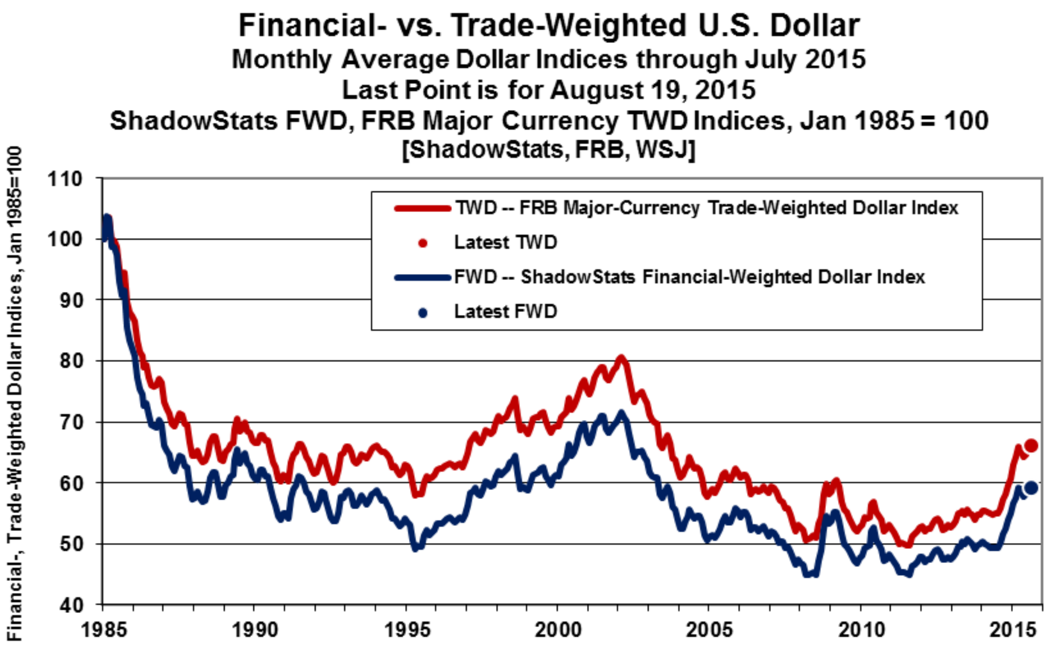
GOLD GRAPHS

Monthly Gold Graphs and Related Comments. The three traditional gold graphs (*Graphs 5, 6 and 7*) that accompany the CPI *Commentaries* follow at the end of this section. The "Latest August" points in the graphs reflect late-afternoon New York prices for August 19th (after the release of the FOMC minutes). The various plots, including *Graph 4* of the U.S. dollar, also reflect activity of recent months and years.

Irrespective of any prospective FOMC action, inaction or continued befuddlement, near-term news on the U.S. economy generally will continue to come in well below market expectations. As false strength in some recent, headline economic reporting evaporates, the Fed very well might continue to waffle on its interest rate hike decision. Yet, the dynamics of intensifying shifts in global perceptions of U.S. economic activity likely will overtake the impact of the Fed's continuing games-playing with the U.S. currency and equity markets.

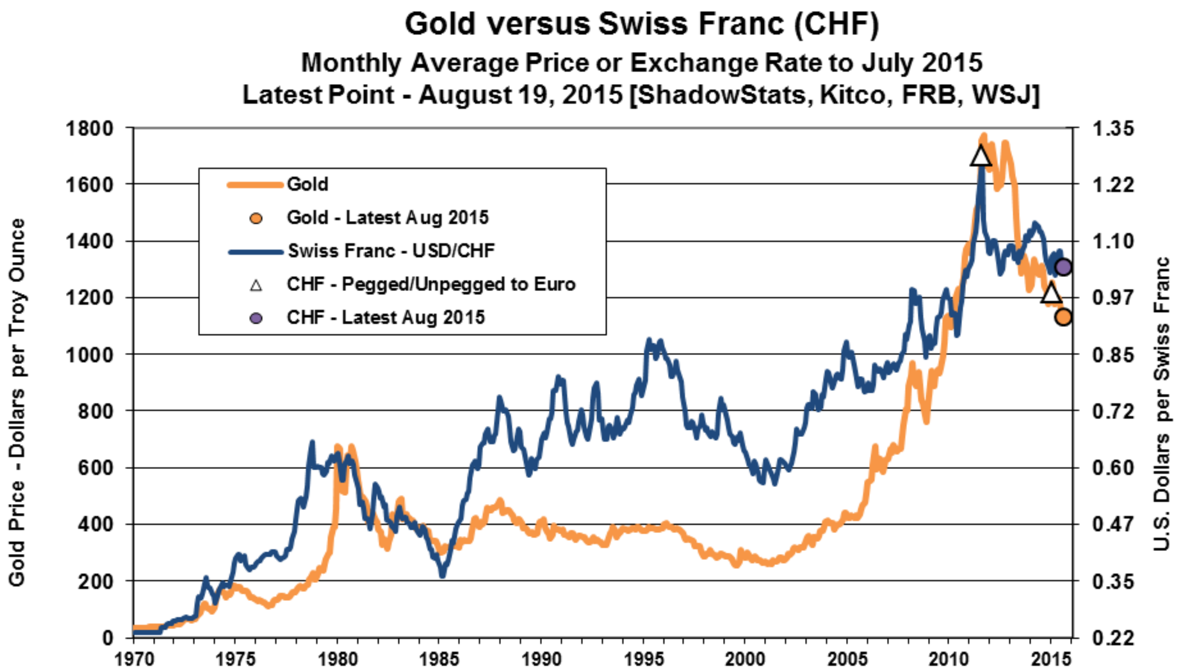
The myriad negative implications of an intensifying downturn in U.S. business activity should trigger heavy selling pressure against the U.S. currency. As the developing sell-off in the U.S. dollar gains broadly-based momentum, offsetting sharp rallies should be seen, on a coincident basis, for gold and silver prices, as well as for oil prices.

Graph 4: Financial- versus Trade-Weighted U.S. Dollar

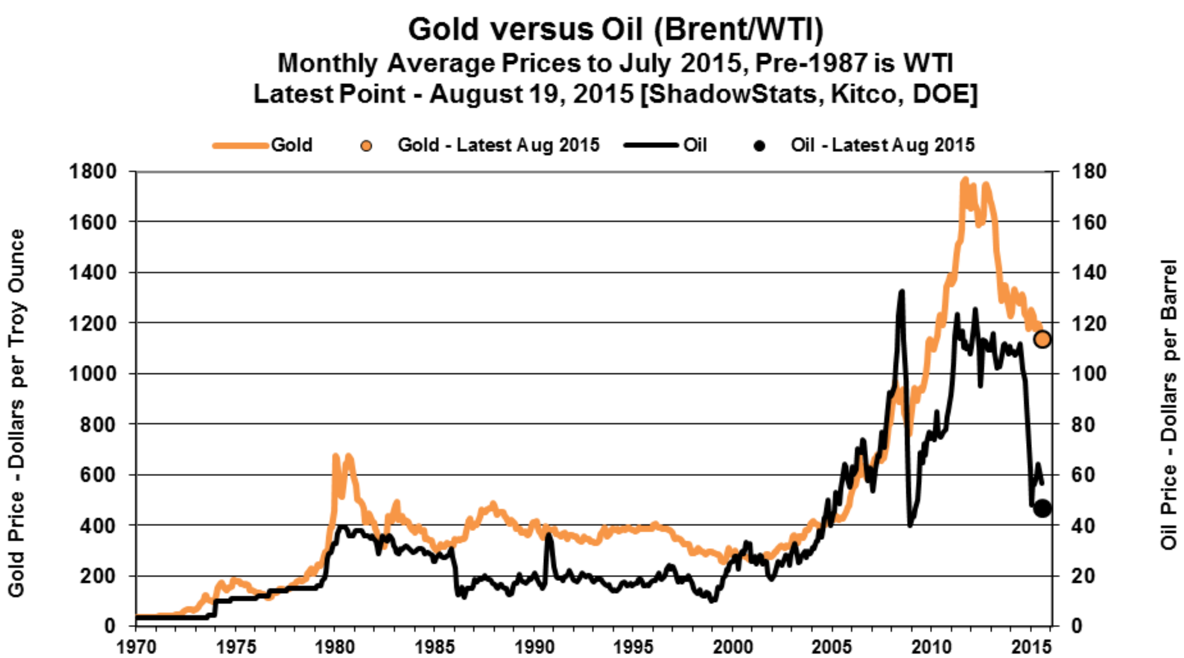


Continuing strength in the exchange-rate value of the U.S. dollar against other major Western currencies remains the primary distorting element in various financial markets and global circumstances. Global financial markets have become increasingly vulnerable to shocks, along with mounting domestic and global economic and political instabilities. ShadowStats continues to look for a massive flight from the U.S. dollar in the year ahead, likely much sooner than later, and quite possibly with little advance warning. The various issues have been discussed in the last two weeks in the August 10th *No. 742 Special Commentary: A World Increasingly Out of Balance* and in *Commentary No. 743* of August 17th.

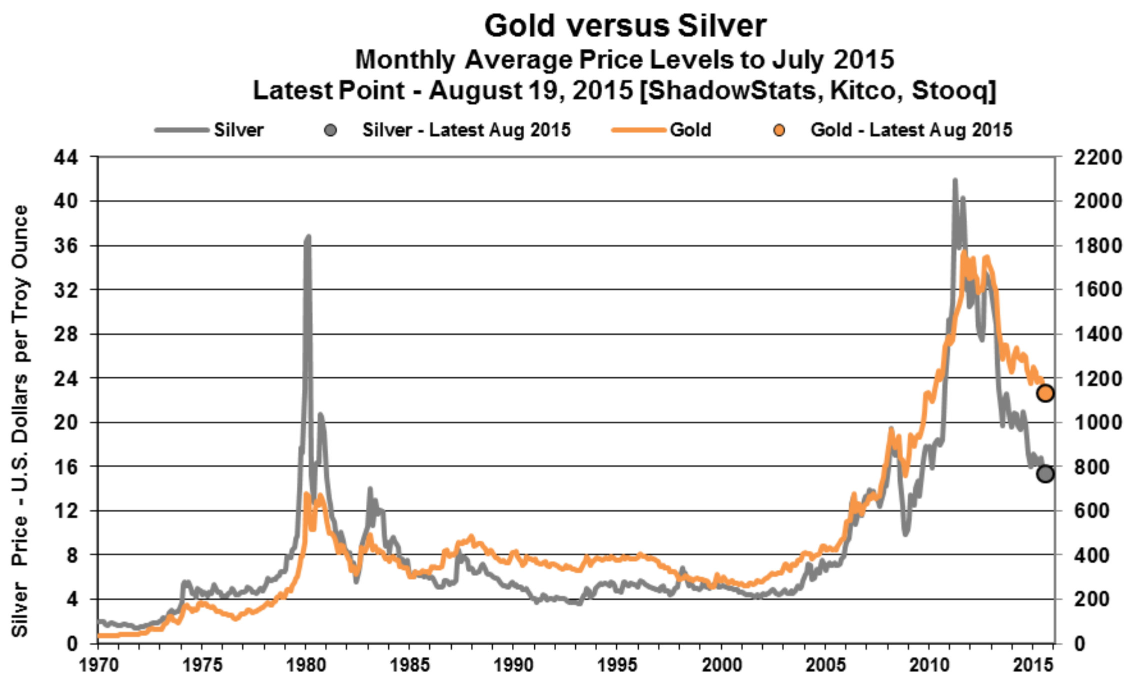
Graph 5: Gold versus the Swiss Franc



Graph 6: Gold versus Oil



Graph 7: Gold versus Silver



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REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (July 2015)

Headline July CPI-U Rose by 0.1% for the Sixth Consecutive Monthly Gain; Annual Inflation Was Up by 0.2% for Second Consecutive Positive Reading. *[The paragraphs down to the "Longer-range Outlook..." largely are repeated from or covered in the* Opening Comments.*]* July 2015 CPI-U inflation rose month-to-month by 0.13%, below consensus expectations for a 0.2% headline gain [MarketWatch, Bloomberg]. Such was the sixth consecutive positive monthly inflation reading, following the brief "deflation" created by declining gasoline prices. Above zero for the second consecutive month, year-to-year CPI-U inflation rose by a headline 0.17%, per the Bureau of Labor Statistics (BLS). That was the second headline annual gain in CPI-U inflation since December 2014.

Going forward, annual inflation readings should be increasingly positive, thanks to relatively firm gasoline prices and further positive seasonal adjustments for same in near-term months. Also, year-to-year inflation comparisons in the months ahead will be against the softer inflation numbers of a year ago, which had been hit by weak oil and gasoline prices.

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

Separately, although the pace of annual CPI-U inflation has held just above zero for the second time since December 2014, 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 ShadowStats Alternate Inflation Measures notched higher from June to July, from 3.7% to 3.8% annual inflation, based on 1990 methodologies, and from 7.7% to 7.8% annual inflation, based on 1980 methodologies.

[The next three paragraphs are not changed from the prior Commentary *except for minor cleanup of language and 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, headline inflation 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 with movement towards more-standard use of the C-CPI-U (see below). 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. Discussed generally in *No. 742 Special Commentary: A World Increasingly Out of Balance*, *No. 692 Special Commentary: 2015 - A World Out of Balance* and *2014 Hyperinflation Report—The End Game Begins – First Installment Revised*, high risk of an 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 *No. 742*, linked above). 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.*

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CPI-U. The Bureau of Labor Statistics (BLS) reported this morning, August 19th, that headline, seasonally-adjusted July 2015 CPI-U rose month-to-month by 0.1%, up by 0.13% at the second decimal point, following a headline June gain of 0.3%, up by 0.32% at the second decimal point. Adjusted headline inflation was boosted slightly in July by seasonal factors. On a not-seasonally-adjusted basis, the July 2015 CPI-U effectively was flat, up by just by 0.01% month-to-month, following an unadjusted 0.25% gain in June.

Monthly gasoline-inflation seasonal adjustments were positive for July 2015. The BLS reported unadjusted gasoline prices down by 0.20% (-0.20%) for the month, versus a drop of 0.17% (-0.17%) on a not-seasonally-adjusted basis, per the Department of Energy (DOE). Seasonally-adjusted gasoline prices rose by 0.90% in July, per the BLS. Aggregate energy-inflation seasonal adjustments also were positive for the month.

Major CPI-U Groups. Encompassed by the seasonally-adjusted gain of 0.13% in the July 2015 CPI-U [up by an unadjusted 0.01%], aggregate July energy inflation rose for the month by a seasonally-adjusted 0.06% [down by an unadjusted 0.46% (-0.46%)]. In the other major CPI sectors, adjusted July food and beverage inflation was 0.16% [up by 0.13% unadjusted], while adjusted "core" inflation rose by 0.13% [up by 0.03% unadjusted] for the month. Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 1.80% in July 2015, versus 1.76% in June 2015.

Year-to-Year CPI-U. Not seasonally adjusted, July 2015 year-to-year inflation for the CPI-U increased by 0.2%, up by 0.17% at the second decimal point, following a headline annual gain of 0.1%, up by 0.12% at the second decimal point, in June 2015.

Year-to-year, CPI-U inflation would increase or decrease in next month's August 2015 reporting, dependent on the seasonally-adjusted monthly change, versus the adjusted, headline inflation contraction of 0.08% (-0.08%) for August 2014. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for August 2015, the difference in August's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the July 2015 positive annual inflation rate of 0.17%. For example, a seasonally headline monthly gain of 0.1% in August 2015 CPI-U would push annual August 2015 inflation into a range of 0.3% to 0.4% (0.1% - [-0.08%] +0.17%), depending on rounding.

CPI-W. The July 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 0.13% (unchanged at 0.00% unadjusted), versus an adjusted gain of 0.34% (up by 0.38% unadjusted) in June.

Year-to-Year CPI-W. Unadjusted, July 2015 year-to-year CPI-W inflation fell by 0.31% (-0.31%), slightly narrowed from the annual decline of 0.38% (-0.38%) in June 2015. The recent annual contractions in the unadjusted CPI-W hit their nadir in April 2015, down year-to-year by 0.82% (-0.82%).

Chained-CPI-U. Reflecting the quarterly revision process and finalization of headline inflation for third-quarter 2014, initial reporting of unadjusted year-to-year inflation for the July 2015 C-CPI-U was a contraction of 0.12% (-0.12%), versus a revised annual contraction in June 2015 of 0.11% (-0.11%) [previously down by 0.13% (-0.13%)].

The quarterly revisions were minimal, but consistently to the upside. The biggest change was in the just-finalized third-quarter 2015, where annual inflation in C-CPI-U revised to 1.61% from the previously-estimated 1.58%.

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 3.8% in July 2015, versus 3.7% in June 2015.

The July 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 7.8% (7.77% for those using a second decimal point) year-to-year, versus 7.7% in June 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 July 2015 CPI-U/ShadowStats Inflation—

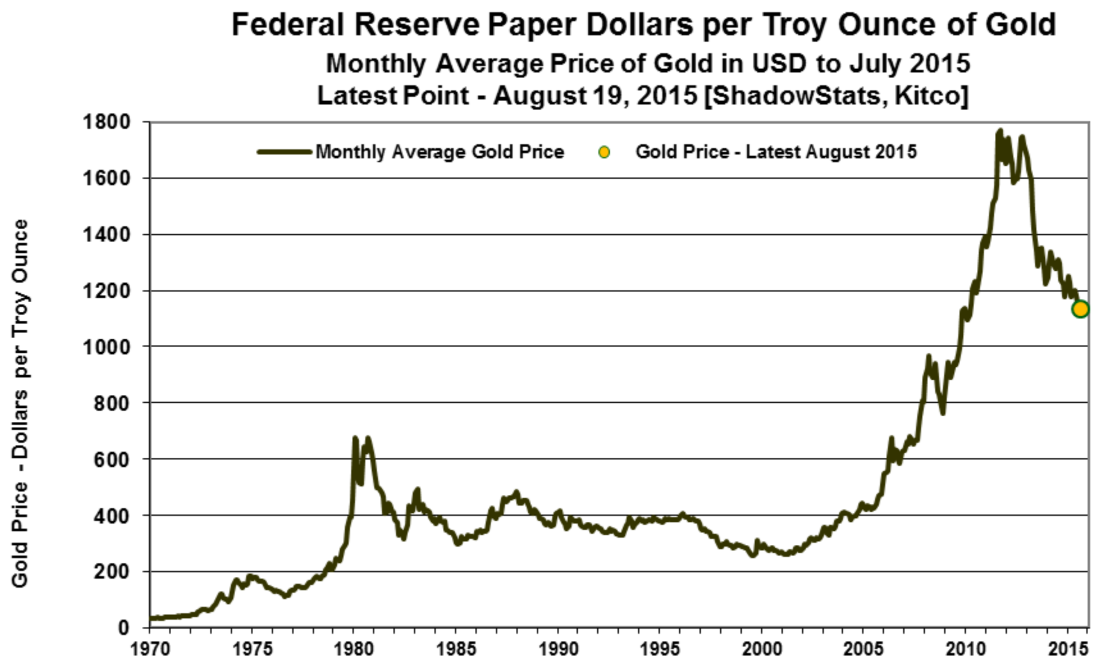
CPI-U: GOLD at $2,607 per Troy Ounce, SILVER at $152 per Troy Ounce
ShadowStats: GOLD at $12,146 per Troy Ounce, SILVER at $707 per Troy Ounce

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 July 2015 CPI-U-adjusted dollars, and $12,146 per troy ounce, based on July 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 July 2015 CPI-U inflation, the 1980 silver-price peak would be $152 per troy ounce and would be $707 per troy ounce in terms of July 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).

Graph 8: Monthly Average Gold Price in Dollars (Federal Reserve Notes)



Real (Inflation-Adjusted) Retail Sales—July 2015—Monthly Nominal Growth of 0.6% Slowed to 0.4% Net of CPI-U Inflation; Recession Signal Continued. Not adjusted for inflation, headline nominal retail sales rose by 0.57% in July 2015, following an upwardly revised "unchanged" reading of 0.00% in June 2015 [previously down by 0.27% (-0.27%)], as detailed in *Commentary No. 743* of August 17th. Year-to-year growth in July 2015 nominal retail sales was 2.43%, versus an upwardly revised 1.83% [previously 1.53%] annual gain in June 2015.

Headline Reporting of Real Retail Sales. Based on today's (August 19th) reporting of headline monthly inflation of 0.13% in the July 2015 CPI-U, and in the context of a 0.32% gain in the June 2015 CPI-U, July 2015 real retail sales rose month-to-month by 0.44%, more than offsetting the revised monthly decline in June real retail sales of 0.31% (-0.31%).

Where first-quarter 2015 real retail sales contracted at an unrevised annualized pace of 1.02% (-1.02%), annualized growth for second-quarter 2015 revised to 3.78% [previously up by 2.98%], while third-quarter growth—based solely on the initial reporting for July—showed an early indication of 1.92%.

Real Year-to-Year Growth Still Generating a Recession Signal. With seasonally-adjusted headline year-to-year CPI-U inflation up by 0.21% in July 2015, and up by 0.18% in June 2015, year-to-year growth in July 2015 real retail sales was 2.43%, versus an upwardly-revised 1.83% [previously up by 1.34%] annual gain in June 2015.

In normal economic times, annual real growth at or below 2.0% signals an imminent recession. That signal had been given most recently in February, April and June 2015, indicating a deepening downturn. Although those readings have been interspersed with somewhat higher readings in March, May and July, the average level of real year-to-year growth for the last six months has been 1.96%. Current reporting remains consistent with a signal of imminent recession. *Graphs 10* and *12*, following, show the latest patterns of headline annual real growth in retail sales.

Discussed and updated in the August 17th *Commentary No. 743*, 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. Without real growth in household income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable growth real personal consumption.

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.

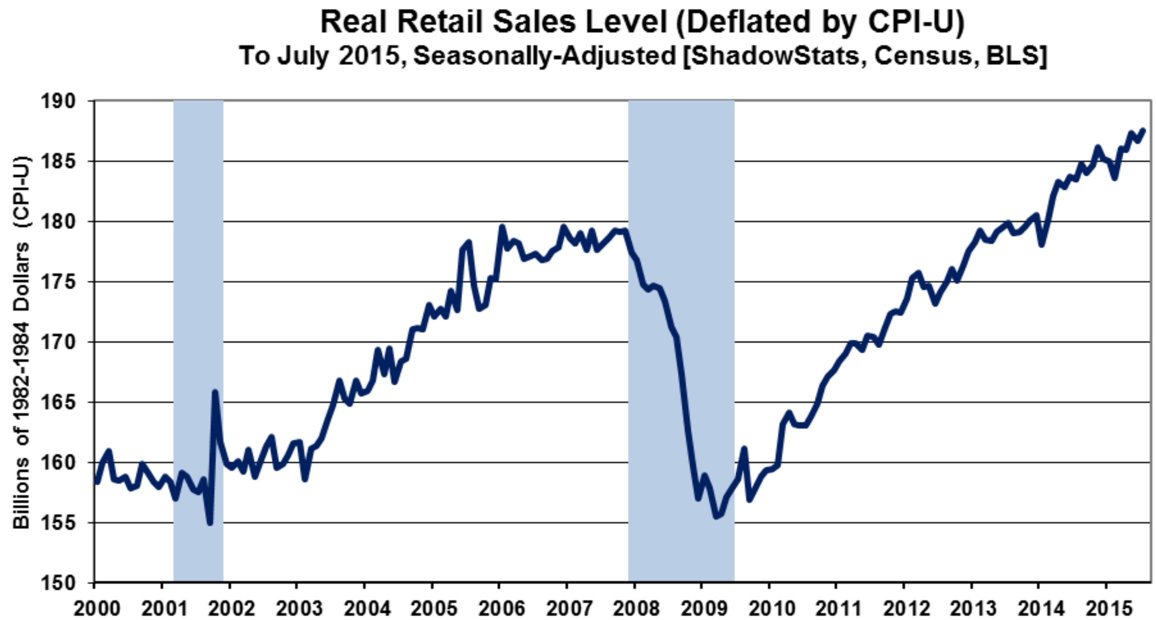
Real Retail Sales Graphs. *Graph 9*, the first of the four graphs following, shows the level of real retail sales activity (deflated by the CPI-U) since 2000; the *Graph 10* shows the year-to-year percent change for the same period. The level of headline monthly activity turned lower for the third consecutive 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, dropped in June and rebounded in July.

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 in February and has been fluctuating since, still generating the recession signal, as discussed earlier. *Graphs 11* and *12* show the level of, and annual growth in, real retail sales (and its predecessor series) in full post-World War II detail.

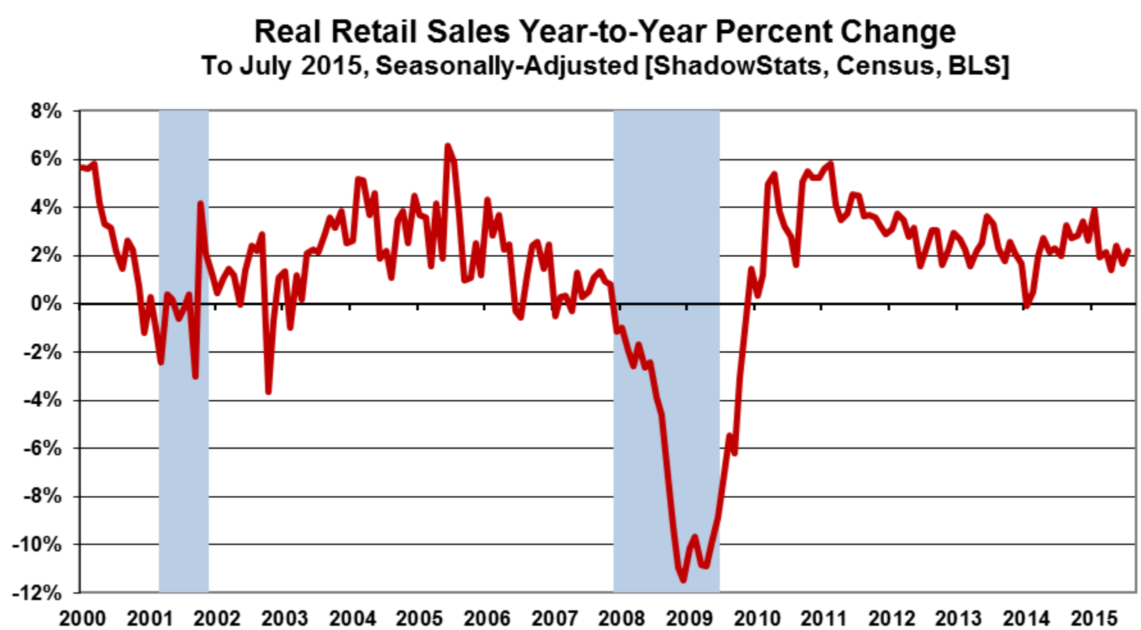
Irrespective of first-quarter 2015 reporting weakness, the apparent “recovery” in the real retail sales series (and other series such as industrial production and GDP) up through year-end 2014 was due largely to the understatement of the rate of inflation used in deflating retail sales and other series. 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—*Graph 2* 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.

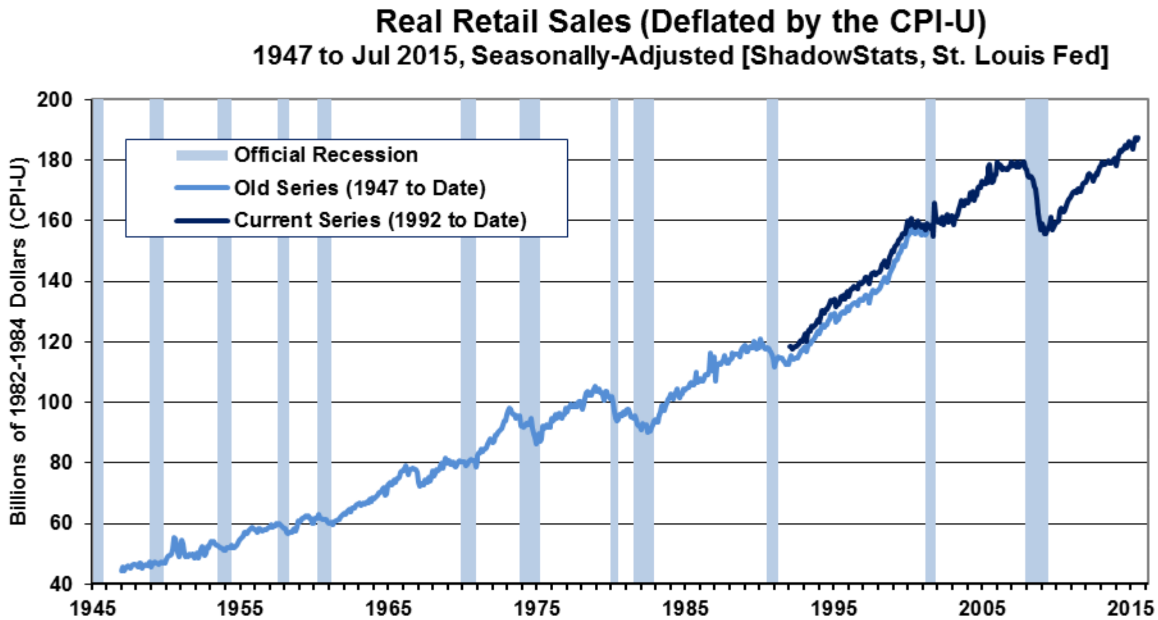
Graph 9: Real Retail Sales (2000 to 2015)



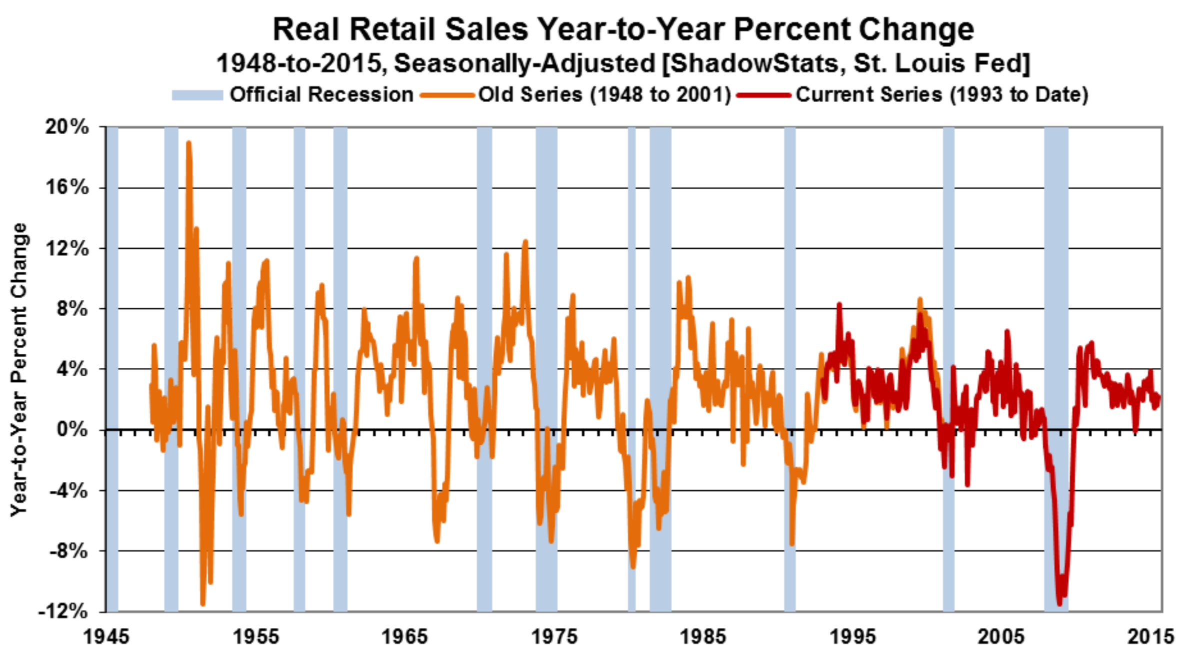
Graph 10: Real Retail Sales (2000 to 2015), Year-to-Year Percent Change



Graph 11: Real Retail Sales (1947 to 2015)



Graph 12: Real Retail Sales (1948 to 2015), Year-to-Year Percent Change



Real (Inflation-Adjusted) Average Weekly Earnings—July 2015—Continuing Downtrend Unfolding for Third-Quarter 2015. Coincident with today's (August 19th) reporting of a headline, seasonally-adjusted monthly gain of 0.13% in the July 2015 CPI-W, the BLS also published real average weekly earnings for the month of July (deflated by CPI-W). The gain in the July CPI-W followed a headline monthly gain of 0.34% in the June 2015 inflation measure.

In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings in July 2015 effectively were "unchanged," up by 0.01%, that was against a revised, also effectively were "unchanged," up by 0.01%, reading for June [previously down by 0.24% (-0.24%) for the month], an unrevised contraction of 0.25% (-0.25%) [initially "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 June revision fully reflected regular surveying and seasonal-factor instabilities by the BLS as to earnings.

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

Quarterly Contractions. Second-quarter 2015 real earnings showed a revised annualized contraction of 2.22% (-2.22%) [previously down by 2.55% (-2.55%)], versus an unrevised 6.22% annualized quarterly gain in first-quarter 2015. Based solely on the initial July reporting, third-quarter growth is on track for an annualized contraction of 0.26% (-0.26%).

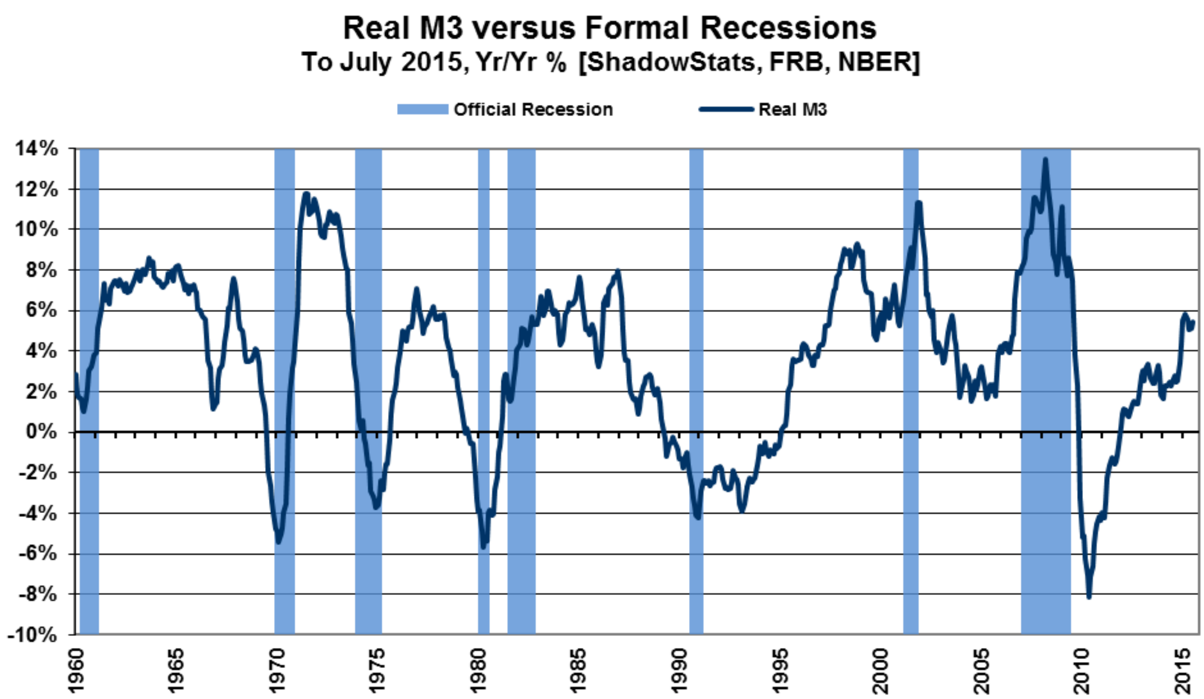
Annual Change. Year-to-year and seasonally-adjusted, July 2015 real average weekly rose by 2.10%, versus an upwardly revised 2.21% [previously 1.95%] gain June, an unrevised 2.22% [initially 2.54%] gain in May and an unrevised 2.33% gain in in April 2015. Unadjusted, year-to-year change was 2.22% in July, versus a revised 0.65% [previously 0.70%] gain in June, a revised 2.42% [previously 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 *Graph 3*, found in the *Opening Comments* section, plots this series, showing 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—July 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 July 2015 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for July 2015 annual growth rose to 5.4%, versus an unrevised 5.1% in June 2015. Such reflected a sharp jump in the pace of nominal annual headline M3 growth (see *Commentary No. 741*) versus a minimally-positive 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. 739*).

Graph 13: Real M3 Annual Growth versus Formal Recessions



Despite the purported, ongoing recovery shown in headline GDP activity, 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 *No. 742 Special Commentary: A World Increasingly Out of Balance* of August 10th,and most broadly in *Chapter 8* of the *2014 Hyperinflation Report—Great Economic Tumble* – *Second Installment*.

WEEK AHEAD

Economic Reporting Generally Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with Higher Oil Prices. In a fluctuating trend to the downside, amidst mixed reporting in headline data, market expectations for business activity nonetheless tend to respond to the latest economic hype in the popular media. That general effect holds the market consensus outlook at overly-optimistic levels, with current expectations still exceeding any potential, underlying economic reality. Still the expectations trend does continue to soften.

Headline reporting of the regular monthly economic numbers increasingly should turn lower in the weeks and months ahead, along with significant downside revisions to second-quarter 2015 GDP and downside or otherwise much weaker-than-expected reporting for at least the next several quarters of GDP into 2016 (see the *Opening Comments*).

CPI-U consumer inflation—driven lower earlier this year 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, having notched somewhat higher in July.

Upside inflation pressures should continue to build, particularly as oil prices begin to rebound, once again, a process that eventually should accelerate rapidly, along with the pending sharp downturn in the exchange-rate value of the U.S. dollar. These areas, the general economic outlook and longer range reporting trends were reviewed broadly, recently, in *No. 742 Special Commentary: A World Increasingly Out of Balance* and *No. 692 Special Commentary: 2015 - A World Out of Balance*.

A Note on Reporting-Quality Issues and Systemic-Reporting Biases. Significant reporting-quality problems remain with most major economic series. Beyond the pre-announced gimmicked changes to reporting methodologies of the last several decades, which have tended to understate actual inflation and to overstate actual economic activity, ongoing headline reporting issues are tied largely to systemic distortions of monthly seasonal adjustments. Data instabilities—induced partially by the still-evolving economic turmoil of the last eight-to-ten years—have 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, discussed and 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 (July 2015). July 2015 existing-home sales are due for release on Thursday, August 20th, from the National Association of Realtors (NAR), with the July 2015 new-home sales report due from the Census Bureau on Tuesday, August 25th. The detail from both series will be covered in the next ShadowStats regular *Commentary No. 746* of August 26th.

The primary, underlying difficulty for the housing market remains intense, structural-liquidity constraints on 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 and updated in the August 17th *Commentary No. 743*.

Noted in yesterday's August 18th *Commentary No. 744*, covering July housing starts, 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. There remains no chance of a near-term, sustainable turnaround in the housing market, until there has been a fundamental upturn in consumer and banking-liquidity conditions. Accordingly, prospects for rising home-sales activity remain bleak.

June Existing-Home Sales rallied strongly. Yet, the longer-term trend in the headline numbers has been flat-to-minus, with some downside catch-up in month-to-month activity a good possibility for July 2015 reporting, likely worse than slightly negative consensus expectations in place. Against the initial headline reporting of June 2015, consensus expectations for July 2015 are to the downside by 1.6% (-1.6%) [Bloomberg] or down by 0.2% (-0.2%)[MarketWatch].

Smoothed for extreme and nonsensical monthly gyrations, an ongoing pattern of stagnation or downturn also should continue in play for July 2015 New-Home Sales, with headline sales having fallen in June 2015 on both a monthly and quarterly basis. While monthly changes in activity here rarely are statistically-significant, still-unstable reporting and revisions (both likely to the downside) remain a fair bet, despite likely positive-consensus expectations. Again, reflecting deteriorating consumer issues, both New- and Existing-Home Sales increasingly should reflect downside volatility in headline reporting.

New Orders for Durable Goods (July 2015). The Census Bureau will report July 2015 new orders for durable goods on Wednesday, August 26th. Net of irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of down-trending stagnation.

Net of commercial aircraft orders, real durable goods orders contracted quarterly in fourth-quarter 2014 and first-quarter 2015, but were to the upside in initial reporting of second-quarter 2015, despite an intensifying plunge in year-to-year activity. Increasingly-negative activity remains likely for the July 2015 detail.

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. As a result, 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 (Second-Quarter 2015, Second Estimate, First Revision). The Bureau of Economic Analysis (BEA) will publish its second estimate, first revision of second-quarter 2015 GDP on Thursday, August 27th.

The initial second-quarter GDP estimate of annualized 2.32% real growth was published along with the downside, annual benchmark revisions to the series, as detailed in *Commentary No. 739*. At that time, first-quarter 2015 revised to a 0.64% gain from a previous decline of 0.17% (-0.17%).

Discussed in the *Opening Comments*, reporting in underlying monthly economic detail, subsequent to the first GDP estimate has been mixed, but suggestive of some downside revision in the revised GDP estimate, tied particularly to the trade deficit and industrial production series.

Of some interest will be the initial estimates of second-quarter 2015 Gross National Product (GNP) and Gross Domestic Income (GDI). GNP is the broadest measure of domestic economic activity, where GDP is GNP net of the trade flows in factor income (interest and dividend payments). GNP came out of the benchmark revisions with an annualized first-quarter 2015 contraction of 0.15% (-0.15%).

GDI, which is the theoretical income-side equivalent to the GDP's consumption side, came out of the benchmark revisions with annualized real growth of just 0.28%, subject to further possible downside revision.

