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

COMMENTARY NUMBER 751
August Industrial Production, Nominal Retail Sales

September 15, 2015

"New" Recession Intensifies

Studies by Regional Federal Reserve Banks Suggest
Recent Economic Weakness Went Beyond Weather Issues

Industrial Production Quarterly Contractions Deepened in Revision

First-Half 2015 Production Now Down 1.5% versus Second-Half 2014,
As Annual Growth Rates Fall Towards Zero

Soft August Retail Sales Growth Should Be Mirrored in
"Real" Terms, Net of Inflation, Given Likely Flat CPI-U

Retail Sales Continued Generating a Recession Signal

PLEASE NOTE: The next regular Commentary*, tomorrow, Wednesday, September 16th, will cover the August Consumer Price Index (CPI), related real retail sales and earnings series, and broad income measures from the* 2014 Poverty Report. *A* Commentary *on Thursday, September 17th, will cover August Housing Starts and the announcement of the preliminary estimate of the 2015 payroll benchmark revision. That afternoon, the FOMC will announce any changes in policy at its September meeting.*

Best wishes to all! — John Williams

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OPENING COMMENTS AND EXECUTIVE SUMMARY

"New" Recession Continues to Deepen. Today's (September 15th) reporting of August industrial production signaled an ongoing and deepening recession, while August nominal retail sales showed slowing, soft growth, with annual change still signaling the onset of a recession. A current assessment of broad economic prospects, in the context of further August and other economic indicators, will follow in *Commentary No. 753* of Thursday, September 17th. At that time, details on the August CPI, real retail sales, real earnings, housing starts, 2014 income measures and an initial estimate of the 2015 benchmark revision to payroll employment all will be in hand. Results of the FOMC meeting also will be available (see *Commentary No. 750*). Nothing appears to be on the horizon that would alter the general outlook of rapidly deteriorating economic activity, or that would counter the stagnant first-half 2015 Gross Domestic Income (GDI) reporting, discussed in *Commentary No. 747*, and its general consistency with headline monthly reporting for production and retail sales numbers.

Did Bad Winter Weather Hurt Economic Growth? Wall Street has tended to blame severe winter weather for headline weakness seen in U.S. economic numbers early in 2014 and in 2015. Indeed, weather regularly affects economic activity, where, for example, unseasonably warm weather spiked utility usage in August 2015 industrial production.

Yet, ShadowStats has contended that economic weakness seen in early-2014 and early-2015 was not so much the impact of bad winter weather, as it was, and still is, the unfolding or resurfacing of an underlying, fundamental economic weakness in domestic activity, driven by severe liquidity constraints on the U.S. consumer. Recent studies out of regional Federal Reserve Banks have tended to confirm that there was more behind those troubled economic numbers than just bad weather.

"The Effect of Winter Weather on U.S. Economic Activity," by Justin Bloesch and François Gurio, of the Chicago Fed, examined the 2014 circumstance. As noted in Chicago Fed synopsis:

"The authors' findings support the view that weather has a significant, but short-lived, effect on economic activity. Except for a few industries, which are affected importantly (such as utilities, construction, hospitality and to a lesser extent retail), the effect is not very big, so that even the fairly bad weather during the 2013–14 winter cannot account entirely for the weak economy during that period. Other factors must have been at play."

From the Boston Fed, a research note "Did Abnormal Weather Affect U.S. Employment Growth in Early 2015," by Christopher L. Foote, noted direct effects on headline, monthly payroll employment growth, but the study also suggested that something other than the weather was at work, as excerpted from the *Abstract*:

"This research note investigates the relationship between the abnormally severe winter experienced in many parts of the United States and the pattern of monthly employment growth during the first four months of 2015. The results suggest that weather reduced employment growth substantially in March and raised it in April. But the overall weather effect averages out to near zero when the four months are considered as a whole, so weather cannot explain the general slowdown in U.S. employment growth experienced since 2014 ended."

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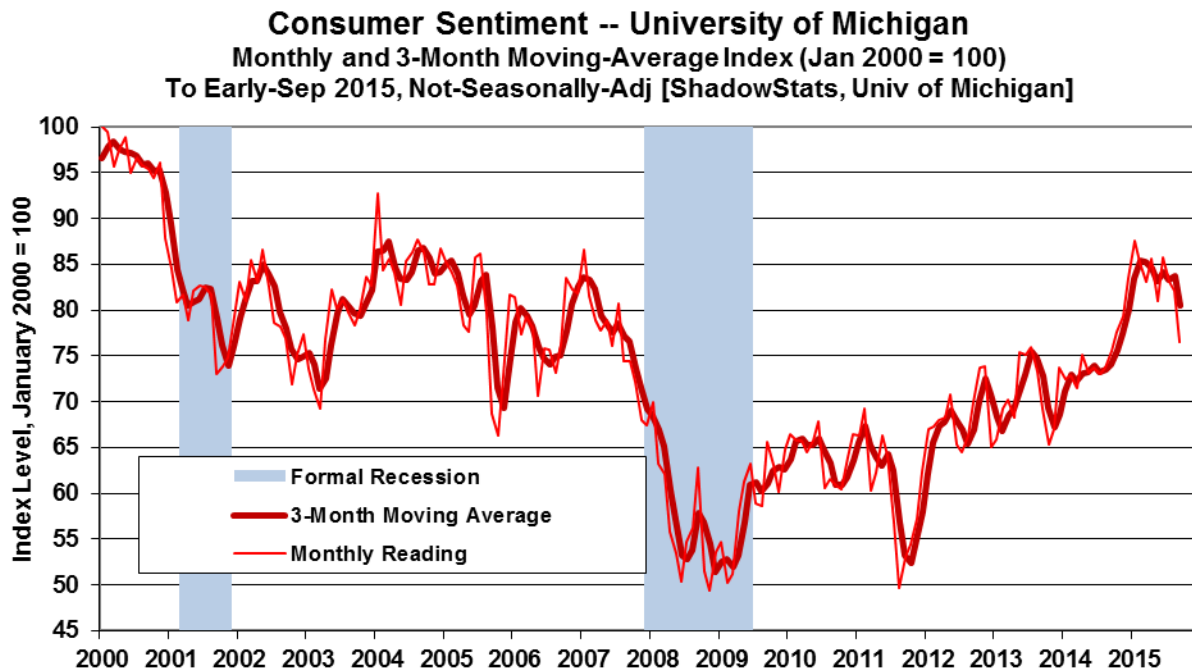
Update to Consumer Conditions—Plunging Sentiment. A full update on consumer liquidity conditions will follow in tomorrow's September16th *Commentary No. 752*, along with the detail of the headline annual income numbers from the 2014 *Poverty Report* (see *Week Ahead*).

Among other factors hurting economic activity, U.S. consumers remain constrained by currently intractable liquidity woes. Without real growth in income, and without the ability and/or willingness to offset declining purchasing power with debt expansion, the consumer lacks the ability to fuel traditional, consumption-based growth or recovery in U.S. economic activity, including retail sales, real or otherwise. With a significant portion of consumers under financial stress, there has been no basis for a sustainable economic expansion since the Panic of 2008, and there are no prospects for a recovery in the near future.

Updating the consumer liquidity graphs included in *Commentary No. 748* and *Commentary No. 750*, the University of Michigan released its early-estimate of 2015 Consumer Sentiment on September 11th. As plotted in *Graph 1*, sentiment plunged in early August, on both a monthly and three-month moving-average basis.

Graph 1: Consumer Sentiment (University of Michigan), through early September 2015



Sentiment here is shown re-indexed to January 2000 =100 (published with an index set to January 1966 =100). The re-indexing solely is for comparative purposes with the also re-indexed Conference Board's Consumer Confidence measure (see tomorrow's expanded detail on consumer liquidity conditions in *Commentary No. 752* of September 16th). Indexing, or re-indexing of a series does not affect in any way the relative patterns of change or levels of activity, or the appearance of the various series.

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Today's *Commentary* (September 15th). The balance of these *Opening Comments* provides a summary of today's reporting on August Industrial Production and nominal Retail Sales, with more-complete coverage found in the *Reporting Detail*.

The *Hyperinflation Watch* includes an unrevised *Hyperinflation Outlook Summary*.

The *Week Ahead* updates the outlooks for the August CPI, real Retail Sales and Housing Starts, along with previews of annual releases on income measures from the *2014 Poverty Report* and the initial estimate of the 2015 benchmark revision to Payroll Employment.

Industrial Production—August 2015—Deepening Downturn. With headline August 2015 industrial production reporting in place, the production series shows a deteriorating economic environment, a deepening and intensifying recession, with circumstances last seen in the economic collapse into 2009. Given downside revisions to recent history, annual growth in production again is at its weakest level (other than in June) since coming out of the economic collapse. August 2015 production fell month-to-month by 0.38% (-0.38%), following a revised gain of 0.87% [previously up by 0.56%] in July.

A Misleading Positive Spin by the Fed. One day ahead of starting the September Federal Open Market Committee (FOMC) meeting, the Federal Reserve Board put a highly misleading, positive spin on this morning's headline drop in August production: "Industrial production decreased 0.4 percent in August after increasing 0.9 percent in July. The increase in July is now estimated to be greater than originally reported last month [0.6 percent], largely as a result of upward revisions for mining and utilities."

That comment is misleading, in that the level of July production was revised higher by less than 0.01%. Virtually all of the upside revision to July's headline month-to-month growth came from a downside revision to the level of June activity, primarily in the area of oil and gas production. That was the basis for relative July mining growth and production growth having been revised higher.

***Patterns of Deepening Contractions*.** Using the Fed's measure of annualized growth by half year (second quarter of one half, versus the second quarter of the subsequent half), second-half 2014 industrial production grew at an unrevised, annualized pace of 4.31%, while first-half 2015 production contracted at a revised, deeper annualized pace of contraction at 1.49% (-1.49%).

First-quarter 2015 production activity showed a revised, deeper annualized pace of quarterly contraction at 0.35% (-0.35%), with second-quarter 2015 production contracting at a revised, deeper annualized pace of 2.61% (-2.61%).

Based solely on the initial reporting for July and August 2015, annualized third-quarter growth would be 2.14%, but that would have been 1.39% before the downside revisions to second-quarter 2015. Nonetheless, year-to-year growth revised to a new post-collapse low of 0.93% for third-quarter 2015, from a revised 1.37% annual growth in second-quarter 2015. Annual growth rates in second- and third-quarter 2015 are at low levels not seen since coming out of the economic collapse.

Year-to-year August 2015 production growth was 0.91%, versus a revised 1.33% in July, a downwardly-revised 0.80% (post-collapse low) in June, and a downwardly-revised 1.25% in May. Annual growth

falling to these levels commonly is seen only in, or at the onset of formal recessions (see *Graphs 4* and *5* in the *Reporting Detail*).

The Fed's industrial production series increasingly indicates that broad economic activity entered a "new" recession, likely to be timed officially from December of 2014.

Industrial Production—Headline Detail. The first estimate of seasonally-adjusted, August 2015 industrial production showed a headline decline of 0.38% (-0.38%), following a revised gain of 0.87%. Net of prior-period revisions, the headline August monthly contraction would have been 0.37% (-0.37%), instead of the headline drop of 0.38% (-0.38%).

Detailed in *Graphs 8* to *10* of major industry groups in the *Reporting Detail*, the headline August 2015 monthly aggregate production loss of 0.4% (-0.4%) [a July gain of 0.9%], was composed of a decline of 0.5% (-0.5%) in August manufacturing activity [a July gain of 0.9%]; an August decline in mining of 0.6% (-0.6%) [July gain of 1.8%] (including oil and gas production); and an August gain of 0.6% in utilities [July contraction of 0.2% (-0.2%)]. Again, the effective upside revisions to July activity were due to downside revisions in June activity.

Year-to-year, August 2015 production growth was 0.91%, versus a minimally revised 1.33% in July 2015, a downwardly-revised 0.80% in June 2015, and a downwardly-revised 1.25% May 2015. Again, annual growth slowing to these low levels of activity commonly is seen at the onset of formal recessions.

Production Graphs—Corrected and Otherwise. The regular graphs of headline production level and annual growth detail are found in the *Reporting Detail* (*Graphs 4* to *7*), along with the drill-down graphs of major subcomponents of the production series (*Graphs 8* to *15*), as introduced in the *Opening Comments* of last month's *Commentary No. 743*. The level of headline production showed a topping-out process late in 2014, followed by a deepening downturn into first- and second-quarter 2015, with August reporting still well off recent-peak activity, despite an uptick in July. Such patterns of monthly and quarterly declines were last seen in the depths of the economic collapse from 2007 (or earlier) into 2009. Annual growth in August 2015 and related slowing annual growth in recent months remained a level commonly seen at the onset of a formal recession (see *Graphs 4* and *5*).

The *Graphs 2* and *3*, which follow in this section, address reporting quality issues tied just to the overstatement of headline growth that results directly from the Federal Reserve Board using too-low an estimate of inflation in deflating some components of its production estimates into real dollar terms, for inclusion in the index of industrial production.

Hedonic quality adjustments to the inflation estimates understate the inflation rates used in deflating those components; thus overstating the resulting inflation-adjusted growth in the headline industrial production series (see *Public Comment on Inflation* and *Chapter 9* of *2014 Hyperinflation Report—Great Economic Tumble*).

Graph 2 shows official, headline industrial production reporting, but indexed to January 2000 = 100, instead of the Fed's formal index that is set at 2012 = 100. The 2000 indexing simply provides for some consistency in the series of revamped "corrected" graphics (including real retail sales, new orders for durable goods and the GDP); it does not affect the appearance of the graph or reported growth rates (as can be seen with a comparison to *Graph 7* in the *Reporting Detail* section).

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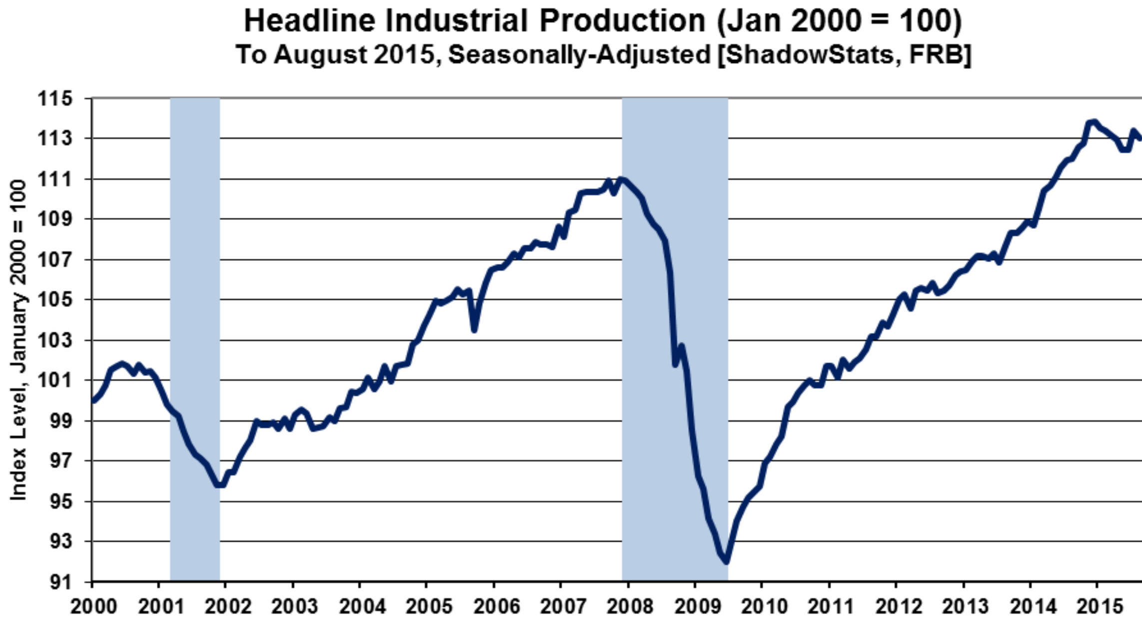
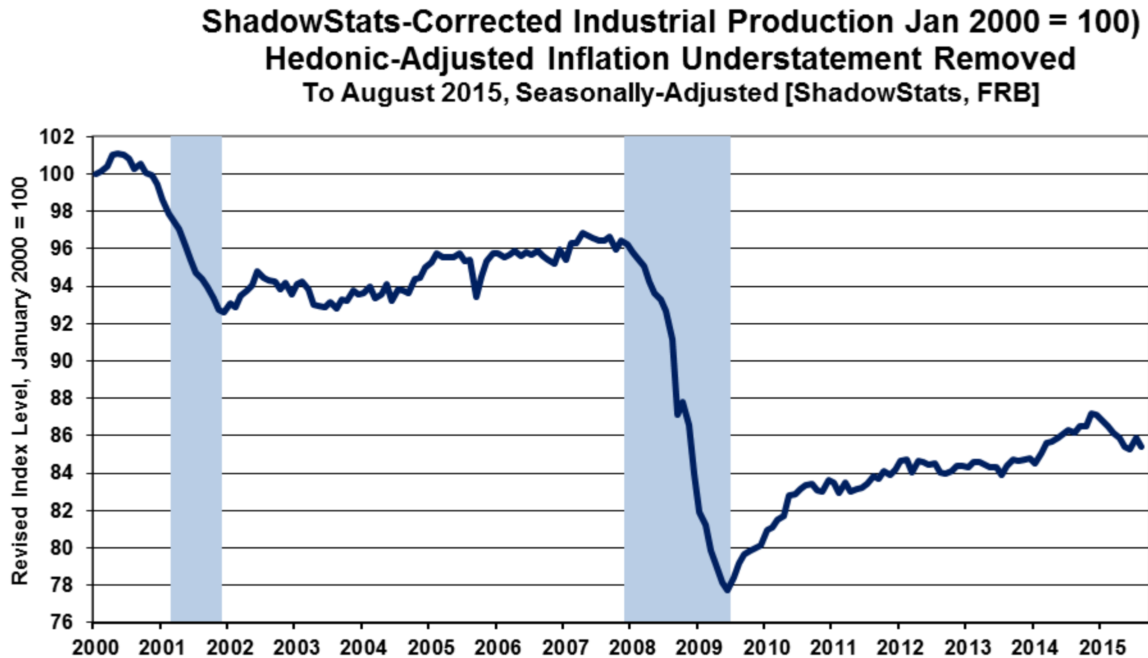
Graph 3 is a recast version of *Graph 2*, corrected for the estimated understatement of the inflation used in deflating certain components of the production index. Estimated hedonic-inflation adjustments have been backed-out of the official industrial-production deflators used for headline reporting.

Graph 2: Indexed Headline Level of Industrial Production (Jan 2000 = 100)



Graph 3: Headline ShadowStats-Corrected Level of Industrial Production (Jan 2000 = 100)



This "corrected" *Graph 3* shows growth in the period subsequent to the official June 2009 trough in production activity, however, that upturn has been far shy of the full recovery and the renewed expansion reported in official GDP estimation (see [Commentary No 747](#)). Unlike the headline industrial production data and the headline GDP numbers, corrected production levels have not recovered pre-recession highs. Instead, corrected production entered a period of protracted low-level, but up-trending, stagnation in 2010, with irregular quarterly contractions seen through 2014, and an irregular uptrend into 2014, a topping-out in late-2014 and turning down into the first two quarters of 2015. Where the corrected series has remained well shy of a formal recovery, both the official and corrected series suffered an outright contraction in both first- and second-quarter 2015; this a pattern of severe economic weakness last seen during the economic collapse. Despite an initial uptick in July, third-quarter 2015 growth was heading lower with the headline August 2015 detail.

Nominal Retail Sales—August 2015—Sales Gain Should Face Minimal Inflation Adjustment. In the context of an upside revision to prior July reporting, August 2015 nominal retail sales rose by a near-consensus headline 0.2% (Bloomberg reported expectations of 0.3%, MarketWatch 0.2%). Such was before adjustment for August CPI-U inflation, which likely will be close to nil in headline reporting.

Although real month-to-month activity in August, net of inflation, still should be positive, annual real growth also should continue generating a solid signal for a formal, new recession. Adjusting for realistic inflation (see *Commentary No. 736* and *No. 742 Special Commentary: A World Increasingly Out of Balance*), real retail sales and the broad economy never truly recovered from the economic collapse into 2008 and 2009.

Noted earlier in these *Opening Comments*, the primary underlying issue with current retail sales activity remains intense, structural-liquidity woes besetting the consumer. Without real growth in income, and without the ability and/or willingness to offset declining purchasing power with debt expansion, the consumer lacks the ability to fuel traditional, consumption-based growth or recovery in U.S. economic activity, including retail sales, real or otherwise.

Nominal (Not-Adjusted-for-Inflation) Retail Sales—August 2015. In the context of a downside revision to June and an upside revision to July retail sales activity, August 2015 sales rose by a statistically-insignificant, seasonally-adjusted 0.19%, at the second decimal point. Net of prior-period revisions, the monthly gain in nominal August retail sales was 0.28%.

Such followed a statistically-significant, upwardly revised monthly gain of 0.71% in July and a downwardly revised monthly contraction of 0.04% (-0.04%) in June.

Year-to-Year Annual Change. Year-to-year nominal retail sales in August 2015 increased by a statistically-significant, albeit somewhat slower, 2.16%, versus a revised annual gain of 2.59% in July 2015 and a revised annual gain of 1.79% in June 2015.

Annualized Quarterly Changes. The pace of annualized nominal retail sales contraction in first-quarter 2015 remained at 4.04% (-4.04%), the worst quarter-to-quarter showing since the economic collapse.

The nominal annualized quarterly growth for second-quarter 2015 retail sales revised to 6.81%, and, based solely on July and August 2015 reporting, annualized third-quarter growth would be 4.76%.

Net of inflation, the real retail sales change in first-quarter 2015 remained at an annualized quarterly contraction of 1.02% (-1.02%), and quarterly change in second-quarter real retail sales revised to a gain of 3.72%. August's indication will be assessed in the tomorrow's September 16th CPI-U *Commentary*, but it should be solidly in positive territory.

Real (Inflation-Adjusted) Retail Sales—August 2015. The nominal gain of 0.19% in August 2015 retail sales was before accounting for inflation. The change in real retail sales for August will be published tomorrow, along with the headline estimate of consumer inflation for August 2015 in *Commentary No. 752*. Consensus expectations [MarketWatch and Bloomberg] are for a flat-to-minimally-minus headline August CPI-U, which would suggest a headline monthly change in real August retail sales close to today's headline nominal August gain of 0.19%. Real annual growth, however, should continue to signal imminent recession.

[The Reporting Detail section includes expanded detail on the August production and retail sales reporting.]

HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY

Broad Outlook Is Unchanged: Economy Remains in Downturn; Dollar Faces Massive Decline with Ongoing Implications for Hyperinflation. Other than for updated internal links and references, or minor language editing, the *Hyperinflation Outlook Summary* is unrevised.

Background Documents to this Summary. Underlying this *Summary* are *No. 742 Special Commentary: A World Increasingly Out of Balance* of August 10th, and *No. 692 Special Commentary: 2015 - A World Out of Balance* of February 2, 2015, which updated the *Hyperinflation 2014* reports and the broad economic outlook. Previously, the long-standing hyperinflation and economic outlooks were updated with the publication of *2014 Hyperinflation Report—The End Game Begins – First Installment Revised*, on April 2, 2014, and publication of *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, on April 8, 2014. The two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts. In terms of

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underlying economic reality, one other reference is the *Public Commentary on Inflation Measurement*. The regular *Commentaries* also update elements of the general outlook, as circumstances develop.

Primary Summary. The U.S. economy remains in ongoing downturn, while the U.S. dollar still faces a massive decline. Those factors, in confluence with extreme domestic fiscal imbalances, have implications for a meaningful upturn in domestic inflation evolving into a great hyperinflationary crisis.

Signs of systemic instability continue to mount, as the Fed faces the question of raising interest rates on Thursday, September 17th (see *Commentary No. 750*). The Fed's protracted unwillingness and/or inability to act decisively on increasing interest rates has been symptomatic of a financial system in serious distress. Continued inaction or waffling by the Fed is likely to trigger a shift in focus and concerns, of both the domestic and global financial markets, into the area of systemic instabilities, prospective or otherwise, that are so troubling to the U.S. central bank.

Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by eventual, unfettered monetization of the national debt and obligations, leading to a hyperinflation. As first estimated by ShadowStats in 2004, such hyperinflation appeared likely by 2020. That time horizon for the hyperinflation forecast was moved to 2014, because of the 2008 Panic, the near-collapse of the financial system, and official (U.S. government and Federal Reserve) responses to same. That hyperinflation forecast remains in place, but it has been adjusted to 2015 or 2016, as discussed in *No. 742* and *No. 692*.

The basic story of how and why this fiscal, financial and economic crisis has unfolded and developed over the years—particularly in the last decade—is found in the *Opening Comments* and *Overview and Executive Summary* of the *2014 Hyperinflation Report—The End Game Begins—First Installment Revised*.

Dollar Circumstance. Discussed in the background documents, the U.S. dollar rallied sharply from mid-2014 into early-2015, initially reflecting likely covert financial sanctions and oil-price manipulations by the United States, aimed at creating financial stresses for Russia, in the context of the Ukraine situation. Relative U.S. economic strength, and the relative virtuousness of Fed monetary policy versus major U.S. trading partners, were heavily picked-up on and over-estimated by global markets looking to support the dollar.

The still unfolding, weakening domestic-economic circumstance in 2015, in confluence with other fundamental issues, had begun to raise doubts in the markets as to the sustainability of the purported U.S. economic recovery, and as to the imminence of meaningful monetary tightening by the U.S. Federal Reserve. As a result, the U.S. dollar briefly backed off its highs, with some related upside pressure having been seen on oil prices. Pressures reversed recently, spiking the U.S. dollar—also hitting oil prices anew—with false domestic economic strength being touted by Wall Street, and with some in the Fed indicating that interest rates would be raised in September, irrespective of negative indications on the economy. Coincident, with these events, not-so-covert central-bank actions appear to have driven the price of gold lower, also in the context of mounting global financial-market instabilities.

The U.S. economy remains in contraction (see *Commentary No. 747* and the *Opening Comments*), with a variety of key indicators, such as industrial production, real retail sales and revenues of the S&P 500 companies showing recession. Although formal recognition could take months, consensus recognition of

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a "new" recession should gain relatively rapidly, in tandem with a variety of monthly, quarterly and annual data reflecting the downturn in business activity. When formal recognition comes, timing of the onset of the "new" recession likely will be December 2014.

As market expectations move towards an imminent, new recession, such should reduce not only expectations for a significant tightening in Fed policy—if the Fed has not tightened already—but also renew expectations for a more-accommodative or newly-accommodative Fed. While such could help to fuel further stock-market mania, any resulting rallies in equity prices likely will be more than offset in real terms, by percentage declines in the exchange-rate value of the U.S. dollar or in the eventual increases in headline consumer inflation.

Faltering expectations on the direction of domestic economic activity, also would place mounting and eventually massive selling pressure on the U.S. dollar, as well as potentially resurrect elements of the Panic of 2008. Physical gold and silver, and holding assets outside the U.S. dollar, remain the ultimate primary hedges against an eventual total loss of U.S. dollar purchasing power. These circumstances should unwind what has been the sharp and generally ongoing rally in the U.S. dollar's exchange rate since mid-2014, and the broadly-related selling pressures seen in the gold and silver markets. Further, oil prices should spike anew, along with a sharp reversal in the dollar's strength.

A crash back to recognition of more-realistic domestic-economic circumstances looms, possibly in the weeks and certainly in the months ahead. It should be accompanied by a crash in the U.S. dollar versus major currencies, such as the Swiss franc, Canadian dollar and Australian dollar (currencies with some perceived ties to gold); and related rallies in precious metals and oil. Further, a sharp deterioration in the near-term outlook for domestic and global political stability continues and is of meaningful risk for fueling further heavy selling of the dollar. Once in heavy downturn, the dollar's gains since June 2014 should reverse fully, pushing the exchange-rate value of the dollar to new historic lows. Again, the nascent currency crisis also has meaningful potential to resurrect elements of the Panic of 2008.

Unexpected economic weakness intensifies stresses on an already-impaired banking system, increasing the perceived need for expanded, not reduced, quantitative easing. The highly touted "tapering" by the FOMC ran its course. Future, more-constructive Fed behavior—moving towards normal monetary conditions in what had been an unfolding, purportedly near-perfect economic environment—was pre-conditioned by a continued flow of "happy" economic news. Suggestions that all was right again with world were nonsense. The Fed's games now are on the brink of being played out or collapsing.

Indeed, the Fed still likely will move to normalize interest rates (see *Commentary No. 750* as well as those in *Commentary No. 726*), if it can get away with it. The FOMC meeting of June 17th apparently concluded that the Fed could not get away with it (see *Opening Comments* of *Commentary No. 729*). Actions by the FOMC on September 17th will be telling. The Panic of 2008 never was resolved, and the Fed increasingly has found that it has no easy escape from its quantitative easing (QE3), which continues; only overt expansion of QE3 ceased. If the Fed does not act quickly to extricate itself from prior actions, QE4 will become the near-term question. Again, despite loud promises of higher rates next week, banking-system issues (not the economy) may keep the pending interest rate hike in a continual state of suspension.

Unexpected economic weakness—a renewed downturn—also savages prospective federal budget deficit prognostications (particularly the 10-year versions). Such throws off estimates of U.S. Treasury funding

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

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

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

While higher domestic interest rates would tend to act as a dollar prop, a hike in rates also could crash the stock market, as some on Wall Street fear, triggering a round of other systemic problems. Again, there is no happy way out of this for the Fed.

The fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed; it is just a matter of market perceptions shifting anew, increasingly against the U.S. currency. That process likely will become dominated by deteriorating global perceptions of stability in U.S. economic activity and the ability of the Federal Reserve to control its monetary policy. Key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008, is turning down anew, with no potential for recovery in the near-term.*** The circumstance includes a renewed widening in the trade deficit and contracting production, as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy (see *Commentary No. 748*). Sharply-negative economic reporting shocks, versus softening consensus forecasts, still remain a heavily-favored, proximal trigger for intensifying the pending dollar debacle.

- ***U.S. government unwillingness to address its long-term solvency issues.*** Those controlling the U.S. government have demonstrated not only a lack of willingness to address long-term U.S. solvency issues, but also the current political impossibility of doing so. The shift in control of Congress did not alter the systemic unwillingness to address underlying fundamental issues, specifically to bring the GAAP-based deficit into balance. Any current fiscal "good news" comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run around $5 trillion for the annual shortfall, with total net obligations of the U.S. government pushing $100 trillion, including the net present value of unfunded liabilities. Still, many in Washington look to continue increasing spending and to take on new, unfunded liabilities. This circumstance now operates in the context of the formal constraint of a renewed debt ceiling.

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- ***Monetary malfeasance by the Federal Reserve, as seen in central bank efforts to provide liquidity to a troubled banking system, and also to the U.S. Treasury.*** Despite the end of the Federal Reserve's formal asset purchases, the U.S. central bank monetized 78% of the U.S. Treasury's fiscal-2014 cash-based deficit (see *Commentary No. 672*). The quantitative easing QE3 asset purchase program effectively monetized 66% of the total net issuance of federal debt to be held by the public during the productive life of the program (beginning with the January 2013 expansion of QE3). The 2014 monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury, but more of that lies ahead. If the Fed does not move soon to boost interest rates, it may be trapped in a renewed expansion of quantitative easing, given ongoing banking-system stresses, vulnerable stock markets and weakening, actual U.S. economic activity. As has been commonplace, the Fed likely would seek political cover for any new or expanded systemic accommodation in any the intensifying economic distress.

- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, usually with a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. The weaker the rating, the weaker tends to be the U.S. dollar. The positive rating for the President is off its historic low, but still at levels that traditionally are traumatic for the dollar. Chances of a meaningful shift towards constructive cooperation between the White House and the new Congress in addressing fundamental fiscal and economic issues are nil. Issues such as non-recovered, faltering economic activity, the consumer liquidity crisis and the nation's long-range solvency should continue to devolve into extreme political crises.

- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are intensifying, or sitting in place, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the ongoing situation versus Russia and extraordinarily-volatile circumstances in the Middle East. U.S. response to Russian activity in the Ukrainian situation likely was behind part of the recent strength in the U.S. dollar and related weakness in oil prices, with U.S. actions aimed at causing financial distress for Russia. These situations have yet to run their full courses, and they have the potential for rapid and massive negative impact on the financial and currency markets.

- ***Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.*** Active efforts or comments against the U.S. dollar continue to expand. In particular, anti-dollar rhetoric and actions have been seen with Russia, China, France, India and Iran, along with some regular rumblings in OPEC and elsewhere. Temporary, recent dollar strength may have bought some time versus those who have to hold dollars for various reasons. Nonetheless, developing short-term global financial instabilities and a quick, significant reversal in the dollar's strength should intensify the "dump-the-dollar" rhetoric rapidly. Consider that China has been selling some of its U.S. Treasury debt holdings to raise cash in for its near-term financial needs. Again, much of the rest of the world also has been backing away from holding U.S. treasury securities.

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

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global willingness, or lack of willingness, to do the same. These circumstances will trigger the early stages of a hyperinflation, still likely in the year ahead.

Both the renewed dollar weakness and the resulting inflation spike should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises. Investors need to preserve the purchasing power and liquidity of their wealth and assets during the hyperinflation crisis ahead. See Chapter 10, *2014 Hyperinflation Report—Great Economic Tumble* for detailed discussion on approaches to handing the hyperinflation crisis and *No. 742*, for other factors afoot in the current environment.

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REPORTING DETAIL

INDEX OF INDUSTRIAL PRODUCTION (August 2015)

First- and Second-Quarter Contractions Deepened in Revision. With the headline August 2015 industrial production reporting in place, the production series is showing a deteriorating economic environment, a deepening and intensifying recession, circumstances last seen in the economic collapse into 2009. Given downside revisions to recent history, annual growth in production again is at its weakest level (other than in June) since coming out of the economic collapse. August 2015 production fell by 0.38% (-0.38%) in the month, following a revised gain of 0.87% [previously up by 0.56%] in July.

A Misleading Positive Spin by the Fed. One day ahead of starting the September Federal Open Market Committee (FOMC) meeting, the Federal Reserve put a highly misleading, positive spin on this morning's headline drop in production, as follows: "Industrial production decreased 0.4 percent in August after increasing 0.9 percent in July. The increase in July is now estimated to be greater than originally reported last month [0.6 percent], largely as a result of upward revisions for mining and utilities."

That comment is misleading, where the level of July production was revised higher by less than 0.01%. The upside revision to July's headline month-to-month growth came from a downside revision to the level of June activity, primarily in the area of oil and gas production. That is why relative July mining growth revised higher.

Patterns of Deepening Contractions. Using the Fed's measure of annualized growth by half year (second quarter of one half, versus the second quarter of the subsequent half), second-half 2014 industrial production grew at an unrevised, annualized pace of 4.31%, while first-half 2015 production contracted at a revised annualized pace of 1.49% (-1.49%) [previously down by 1.13% (-1.13%), initially down by 0.96% (-0.96%)].

First-quarter 2015 production activity contracted a revised annualized quarterly pace of 0.35% (-0.35%) [previously down by 0.21% (-0.21%), initially down by 0.16% (-0.16%)]. Second-quarter 2015 production contracted at a revised annualized pace of 2.61% (-2.61%) [previously down by an annualized 2.04% (-2.04%), initially down by 1.75% (-1.75%)].

Based solely on the initial reporting for July and August 2015, annualized third-quarter growth would be 2.14% [previously 2.13% based on just July], but that would have been 1.39% before the downside revisions to second-quarter 2015. Nonetheless, year-to-year growth revised to a new post-collapse low of 0.93% [previous 1.12%] for third-quarter 2015, from a revised 1.37% [previously 1.56%, initially 1.64%] annual growth in second-quarter 2015. Annual growth rates in second- and third-quarter 2015 are at low levels not seen since coming out of the economic collapse.

Year-to-year August 2015 production growth was 0.91%, versus a revised 1.33% in July, a downwardly-revised 0.80% (post-collapse low) in June, and a downwardly-revised 1.25% in May. Annual growth falling to these levels commonly is seen only in, or at the onset of formal recessions (see *Graphs 4* and *5*).

The Fed's industrial production series increasingly indicates that broad economic activity entered a "new" recession, likely to be timed officially from December of 2014.

Headline Industrial Production—August 2015. The Federal Reserve Board released its first estimate of seasonally-adjusted, August 2015 industrial production this morning, Tuesday, September 15th. Headline monthly production in August fell by 0.38% (-0.38%), following a revised gain of 0.87% [previously up by 0.56%] in July, a revised "unchanged" at 0.00% [previously up by 0.09%, initially up by 0.23%] in June, and a revised May decline of 0.43% [previously down by 0.27% (-0.27%), initially down by 0.16% (-0.16%)]. Net of prior-period revisions, the headline August monthly contraction would have been 0.37% (-0.37%), instead of the headline drop of 0.38% (-0.38%).

Detailed in *Graphs 8* to *10* of major industry groups, the headline August 2015 monthly aggregate production loss of 0.4% (-0.4%) [a July gain of 0.9%], was composed of a decline of 0.5% (-0.5%) in August manufacturing activity [a July gain of 0.9%]; an August decline in mining of 0.6% (-0.6%) [July gain of 1.8%] (including oil and gas production); and an August gain of 0.6% in utilities [July contraction of 0.2% (-0.2%)]. Again, the effective upside revisions to July activity were due to downside revisions in June activity.

Year-to-year August 2015 production growth was 0.91%, versus a revised 1.33% [previously 1.32%] in July 2015, a downwardly-revised 0.80% [previously 1.10%, initially 1.32%] in June 2015, and a downwardly-revised 1.25% [previously 1.46%, initially 1.54%] in May. Again, annual growth slowing to these low levels of activity commonly is seen at the onset of formal recessions.

Production Graphs. The drill-down detail graphs introduced in *Commentary No. 743* of August 17th have been added to this section as a regular feature (see *Graphs 8* to *14*). The regular two sets of short- and long-term industrial production levels and annual rates have been reordered to provide a more-logical sequence to series of graphs.

The following two sets of graphs (*Graphs 4* and *5* and *Graphs 6* and *7*) show headline industrial production activity to date. *Graph 4* shows the year-to-year percent change in the aggregate industrial production series in historical context since World War II. With annual growth in production below 1.0% for the second month of the last three, the pattern remained typical of activity seen at and consistent with

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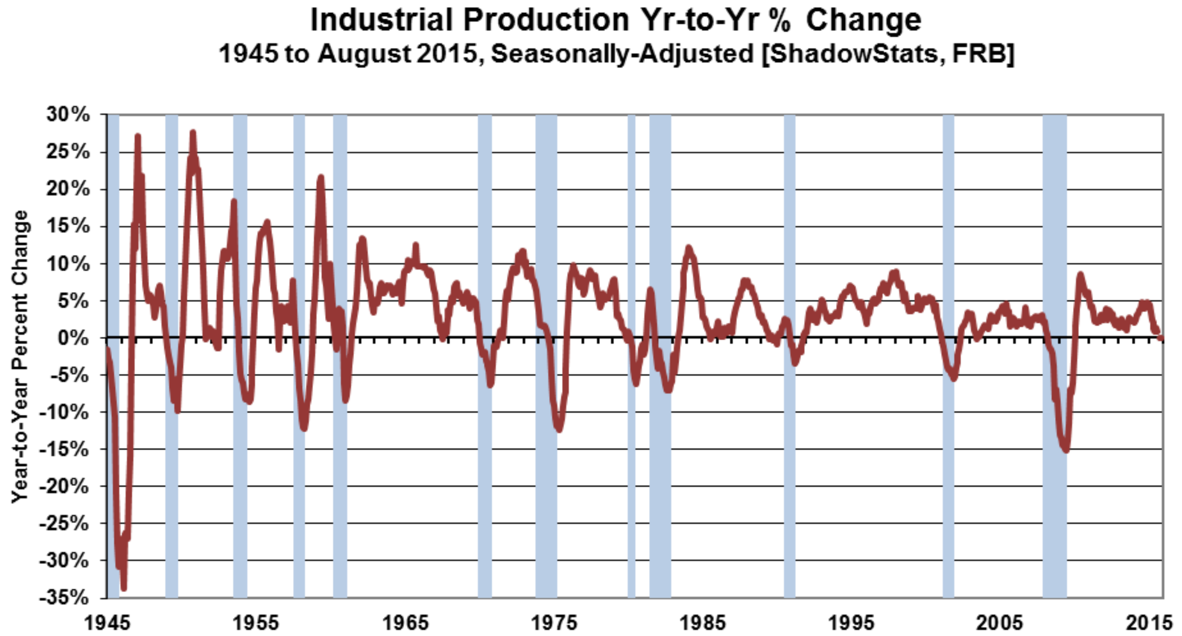
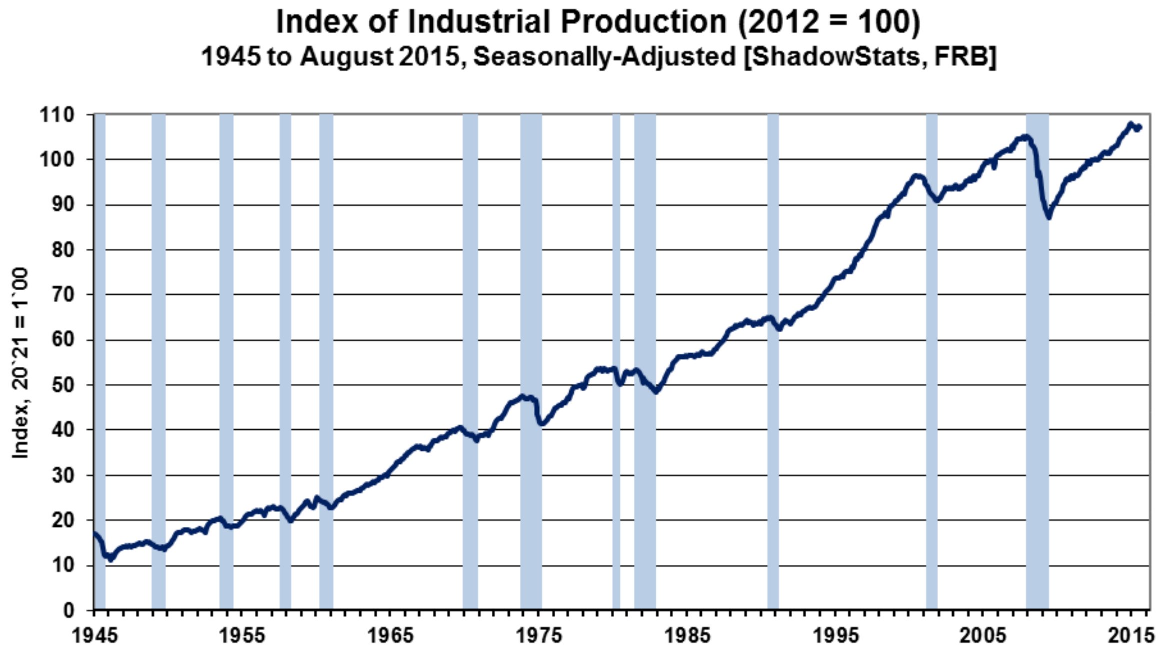
the onset of a formal recession (the circumstance of the 2001 recession lingered into 2003, see [2014 Hyperinflation Report—Great Economic Tumble]).

Graph 4: Industrial Production, Year-to-Year Percent Change since 1945



Graph 5: Index of Industrial Production (Aggregate) since 1945



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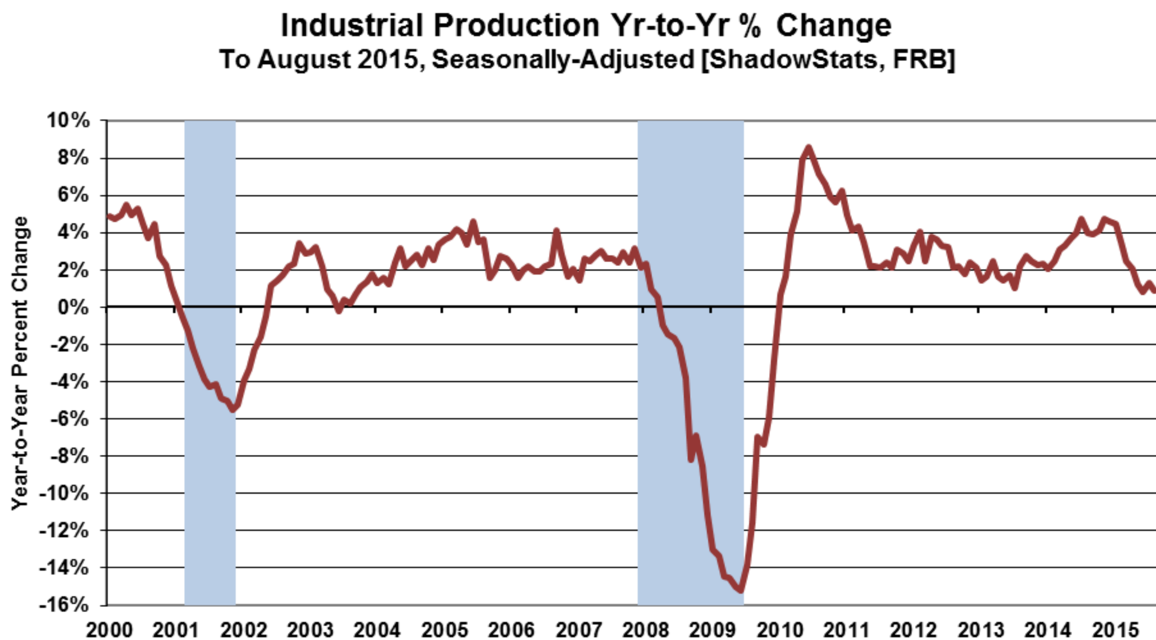
Graph 5 shows the monthly level of the production index, with a topping-out and renewed downturn—deepening quarterly contractions in first- and second-quarter 2015—with a small bounce in July turning lower in August 2015. Such patterns of monthly and quarterly decline and stagnation were seen last in the economic collapse from 2007 (or earlier) into 2009.

Graphs 6 and *7* show same series for recent historical detail, beginning January 2000.

Shown more clearly in the second set of graphs, the pattern of year-to-year activity dipped anew in 2013, again, to levels usually seen at the onset of recessions, bounced higher into mid-2014, fluctuated thereafter and has headed lower again in recent months. Annual growth remains well off the recent relative peak for the series, which was 8.56% in June 2010, going against the official June 2009 trough of the economic collapse. Indeed, as shown in the first set of graphs, the benchmark-revised year-to-year contraction of 15.20% (-15.20%) in June 2009—the end of second-quarter 2009—was the steepest annual decline in production since the shutdown of war-time production following World War II.

Although official production levels have moved higher since the June 2009 trough, corrected for the understatement of inflation used in deflating portions of the industrial production index (see the *Opening Comments* section, *Graph 3*) the series has shown more of a pattern of stagnation with a slow upside trend, since 2009, with irregular quarterly contractions interspersed. The slow uptrend continued into a topping out pattern in late-2014. Headline real growth contracted in both first- and second-quarter 2015. The "corrected" series did the same and remains well shy of a formal recovery.

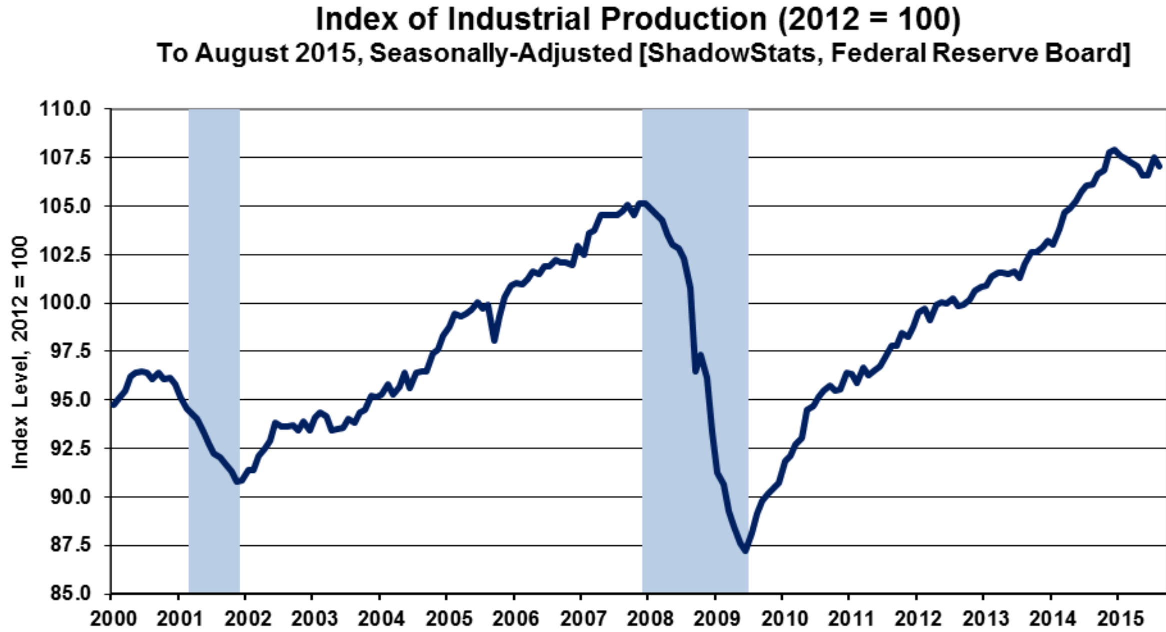
Graph 6: Aggregate Industrial Production, Year-to-Year Percent Change since 2000



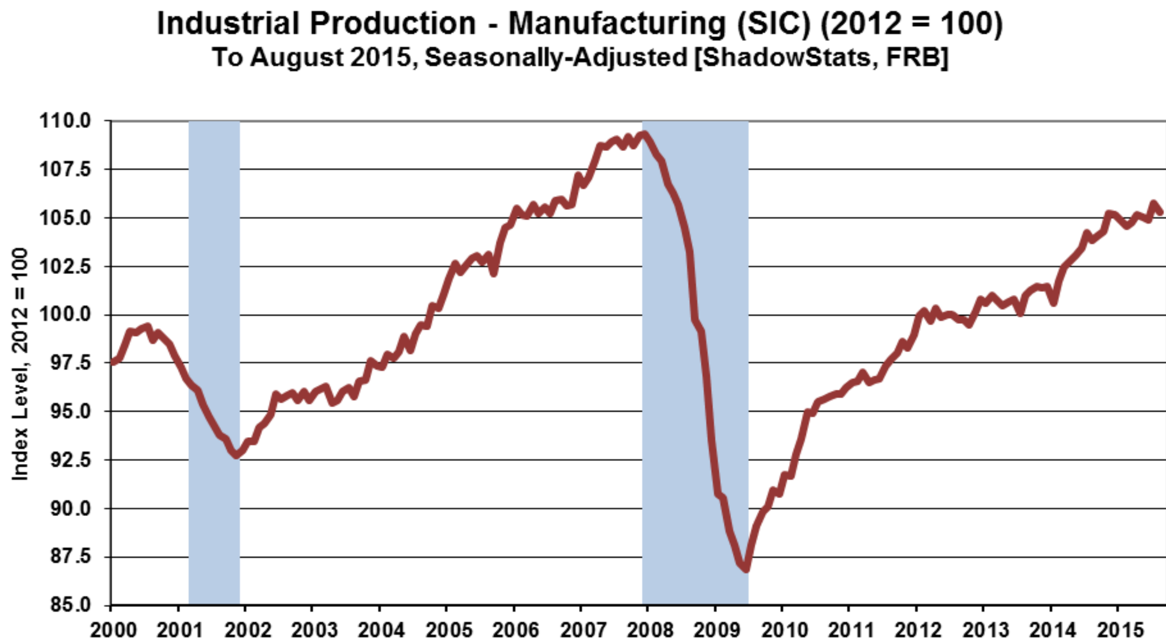
Drilling Down into August 2015 U.S. Industrial Production Detail. *Graphs 7* to *10* show headline reporting of industrial production and some major components. The broad index (*Graph 7*) contracted in

both first- and second-quarter 2015, a circumstance not seen outside of recessions. Such is detailed in the regular reporting on headline production earlier in this section and in the *Opening Comments*.

Graph 7: Index of Aggregate Industrial Production since 2000



Graph 8: Industrial Production – U.S. Manufacturing (73.91% Weighting in Aggregate Index)



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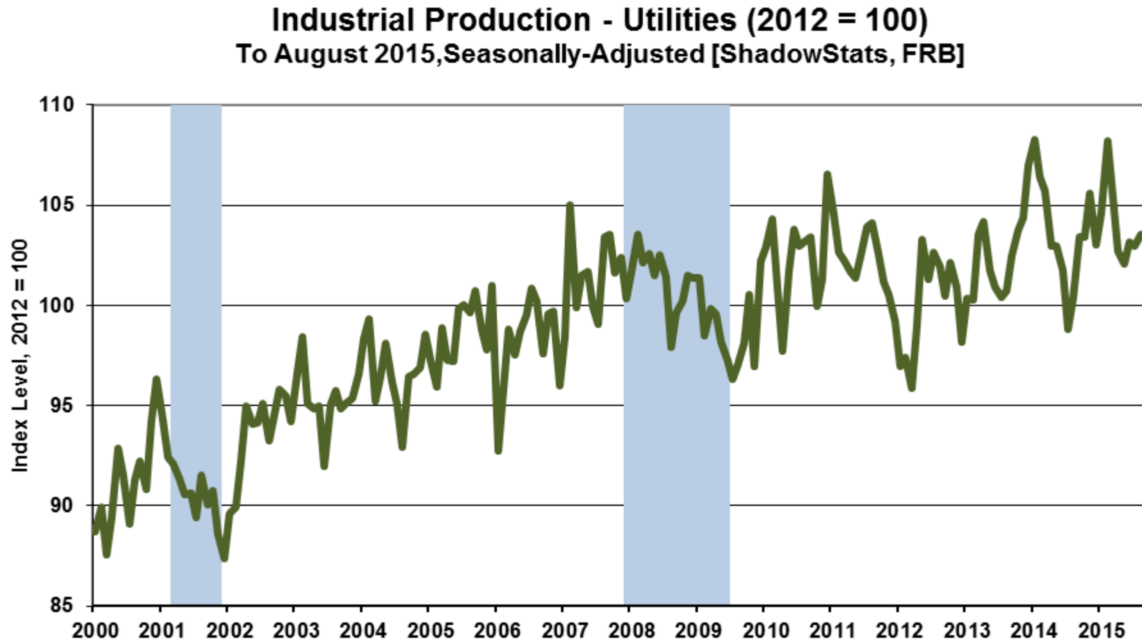
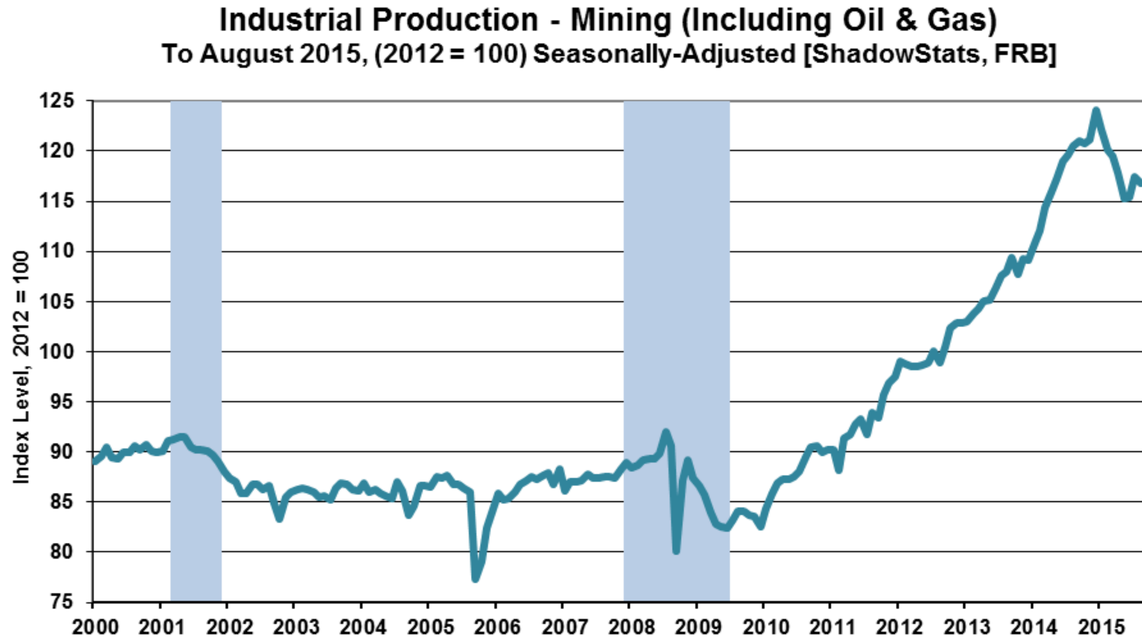
Graph 9: Industrial Production – U.S. Utilities (10.63% Weighting in Aggregate Index)



Graph 10: Industrial Production – U.S. Mining, Including Oil and Gas (15.46% Weighting in Aggregate Index)



The utilities sector activity (*Graph 9*), which accounts for 10.63% of aggregate activity, by weighting, rebounded some in August, but that only was due to sharp downward revisions to activity in June and July. Heavy volatility in month-to-month activity regularly reflects the impact of "unseasonable" extremes in weather patterns.

The mining sector activity (*Graph 10*), accounts for 15.46% of aggregate industrial production activity, by weighting. Mining sector activity, particularly oil and gas exploration and production, are the focus of this analysis. This sector easily recovered its pre-recession high and accounts for the full "recovery" in the aggregate production detail. Mining activity, however, has turned down sharply recently, reflecting a number of factors, including the decline in oil prices (and related U.S. dollar strength). Despite the notch lower in August activity, July's activity appears to stronger than reported previously. That is due to a sharp downside revision June activity, dominated by a downside revision to oil and gas activity.

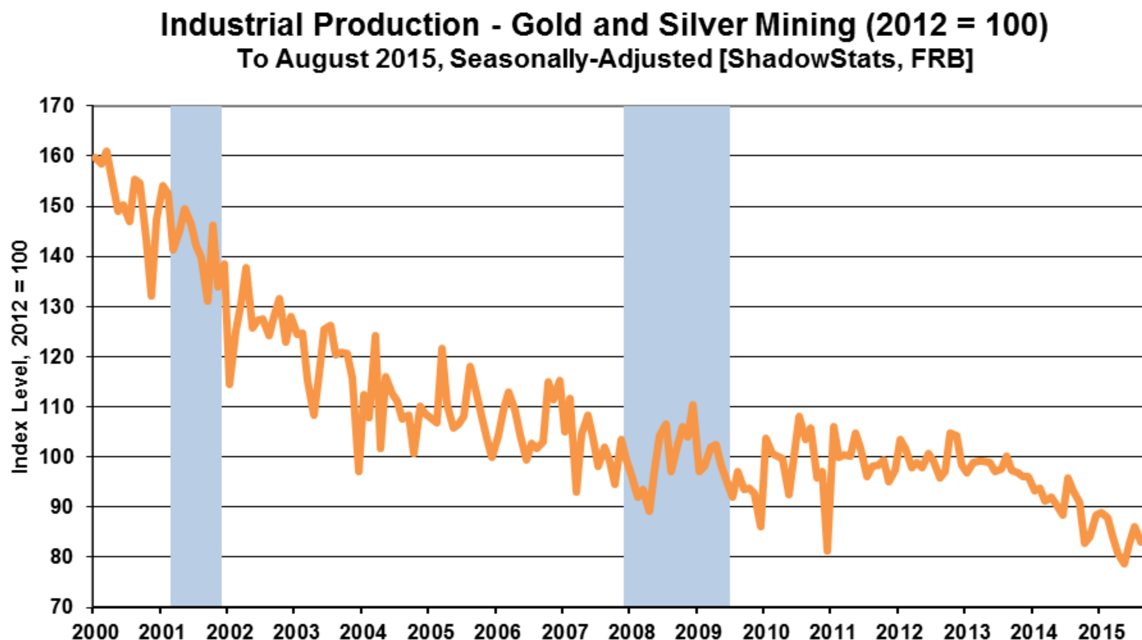
Graph 11 reflects a small monthly decline in gold and silver production, while *Graph 12* shows a continued monthly rebound in coal production.

Despite the continued weakness in oil prices, oil and gas extraction is holding near an all-time high, as seen in *Graph 13*, with exploration, oil and gas drilling (*Graph 14*) showing a dead-cat bounce in July and August.

The recent collapse in drilling largely is an artefact of a massive U.S. dollar rally and oil-price plunge—beginning in July 2014—that appeared to be U.S. orchestrated covert actions designed to stress Russia, financially, in response the circumstance in Ukraine. Shown in *Graph 15*, with some lag following sharp movements in oil prices, oil and gas exploration tends to move in tandem. The oil price index used is for the West Texas Intermediate (WTI) monthly average spot price, deflated using the ShadowStats Alternate CPI measure (based on 1990 methodologies).

As the dollar strengthens, dollar-denominated oil prices weaken, and vice versa. At such time as the U.S. dollar declines—ShadowStats is looking for a massive sell-off in the dollar in the year ahead (again, see No. 742)—oil prices will rally anew, along with surging gold and silver prices.

Graph 11: Mining – Gold and Silver Mining (Since 2000)



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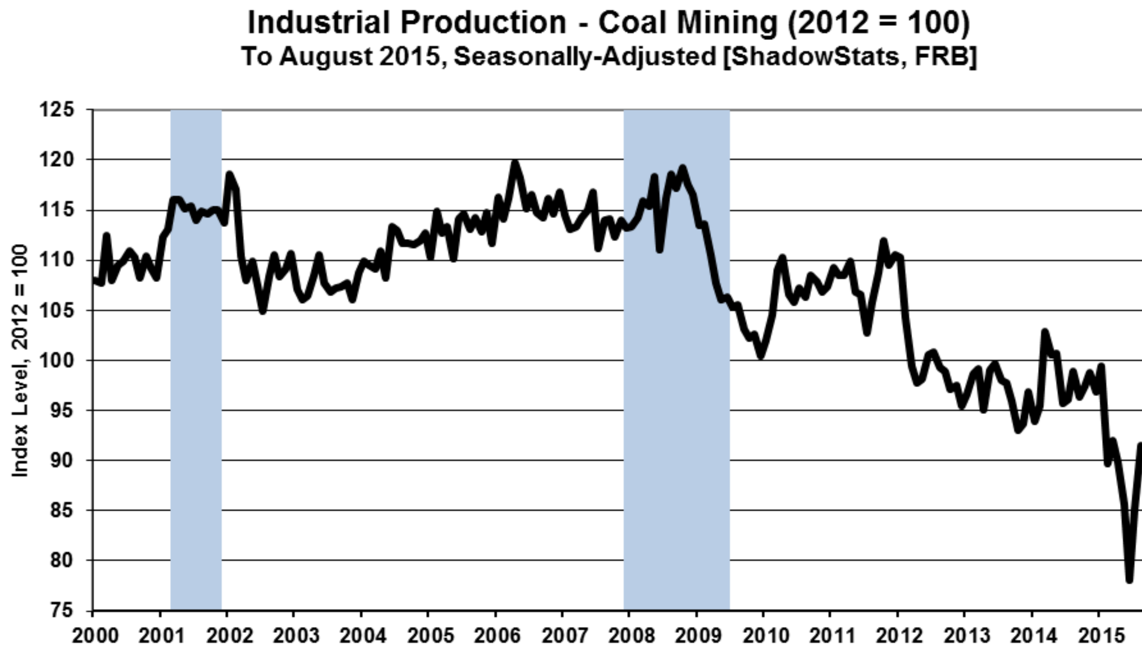
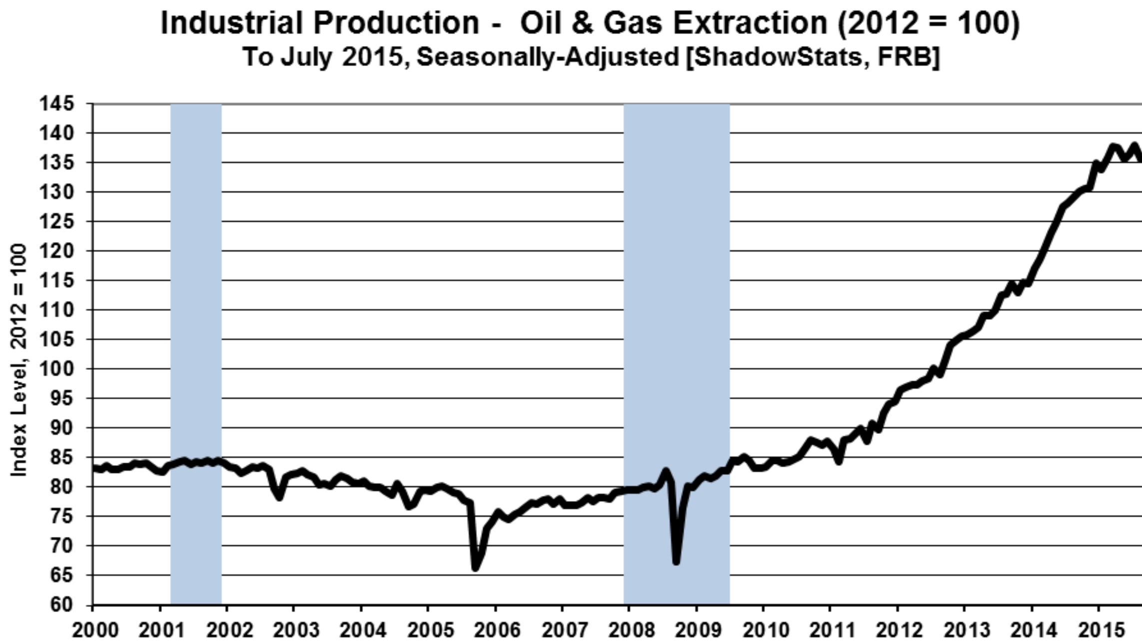
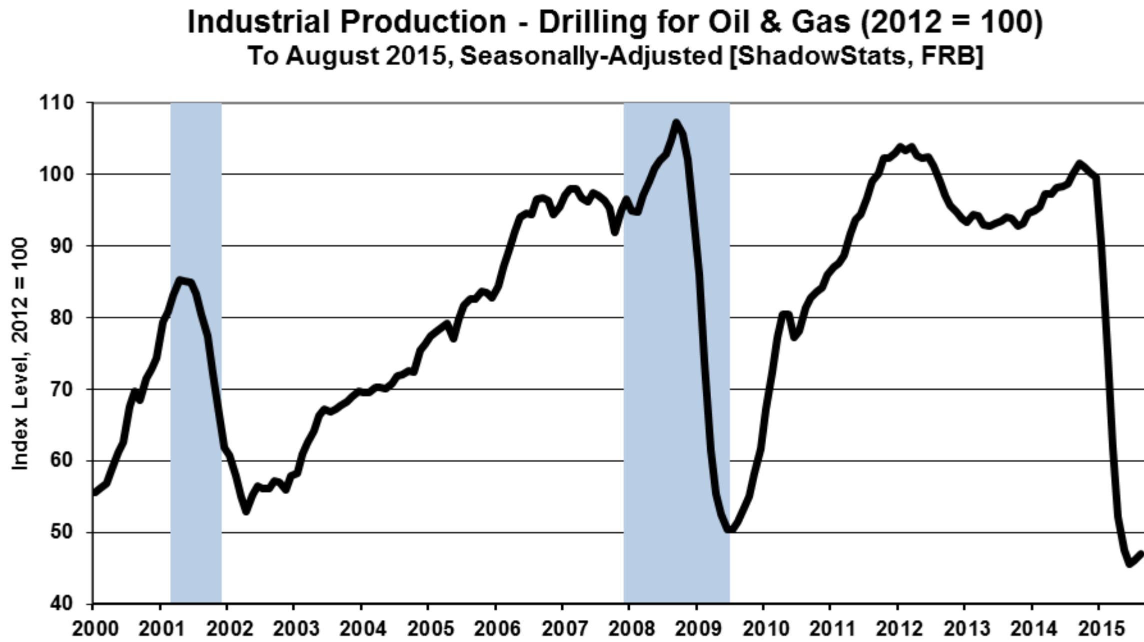
Graph 12: Mining - Coal Mining (Since 2000)



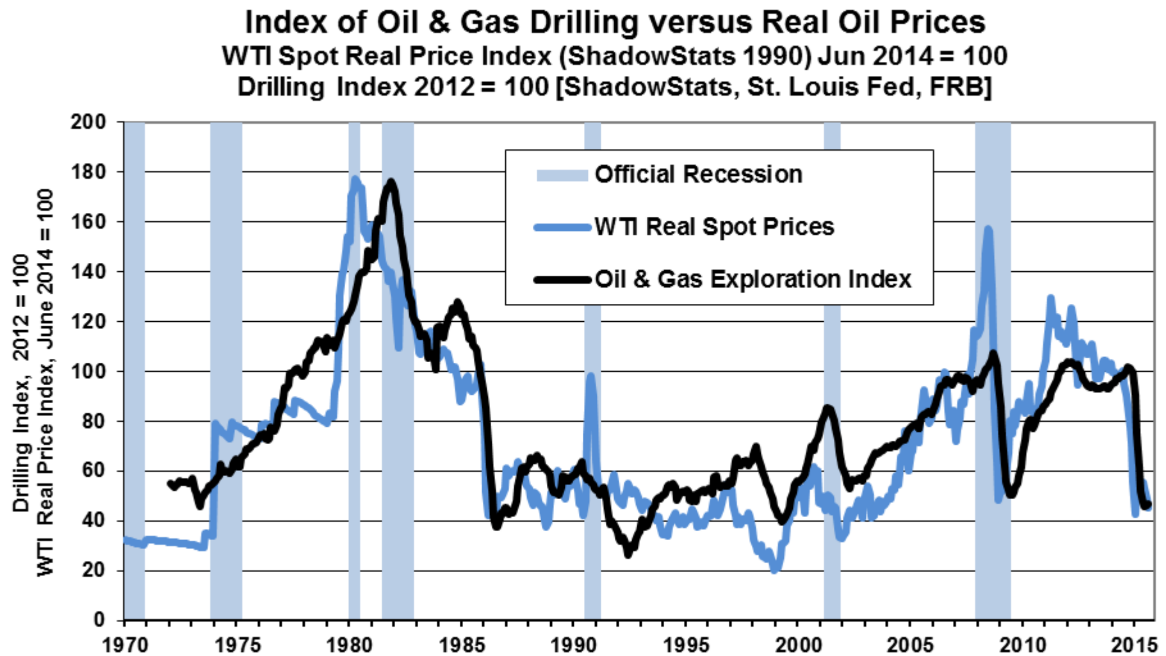
Graph 13: Mining – U.S. Oil & Gas Extraction (Since 2000)



Graph 14: Mining – U.S. Drilling for Oil & Gas (Since 2000)



Graph 15: Mining – U.S. Drilling for Oil & Gas versus Real Oil Prices (WTI ShadowStats 1990 Base)



NOMINAL RETAIL SALES (August 2015)

Nominal Retail Sales Gain Will Face Minimal Inflation Adjustment. In the context of an upside revision to the prior reporting for July, nominal retail sales in August 2015 rose by a near-consensus headline 0.2% (Bloomberg reported expectations of 0.3%, MarketWatch 0.2%). Such was before adjustment for August CPI-U inflation, which likely will be close to nil in headline reporting (see *Week Ahead*).

Although real month-to-month activity in August, net of inflation, still should be positive, annual real growth also should continue generating a solid signal for a formal, new recession. Adjusting for realistic inflation (see *Commentary No. 736* and *No. 742 Special Commentary: A World Increasingly Out of Balance*), real retail sales and the broad economy never truly recovered from the economic collapse into 2008 and 2009.

Structural Liquidity Issues Constrain Consumer Economic Activity. Discussed more fully in *Commentary No. 748*, and updated for real July 2015 median household income in *Commentary No. 750* and for early-September consumer sentiment in the *Opening Comments*, the primary underlying issue with current retail sales activity remains intense, structural-liquidity woes besetting the consumer. That circumstance—in the last seven-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity. Consumer conditions will be updated and reviewed fully in tomorrow's September 16th *Commentary No. 752*, which will encompass new household income detail out the 2014 annual *Poverty Report*.

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

Nominal (Not-Adjusted-for-Inflation) Retail Sales—August 2015. In the context of a downside revision to June and an upside revision to July retail sales activity, August 2015 sales rose by a headline 0.2%, at the first decimal point. At the second decimal point, as reported today, September 15th by the Census Bureau, August 2015 retail sales showed a statistically-insignificant, seasonally-adjusted gain of 0.19% +/- 0.58% (this and all other confidence intervals are expressed at the 95% level). Net of prior-period revisions, the monthly gain in nominal August retail sales was 0.28%.

Such followed a statistically-significant, revised monthly change of 0.71% +/- 0.24% [previously up by 0.56%] in July, and a downwardly revised monthly contraction of 0.04% (-0.04%) [previously unchanged at 0.00%, initially down by 0.27% (-0.27%)] in June.

Year-to-Year Annual Change. Year-to-year nominal retail sales in August 2015 increased by a statistically-significant, albeit somewhat slower, 2.16% +/- 1.53%, versus a revised annual gain of 2.59% [previously up by 2.43%] in July 2015, and a revised annual gain of 1.79% [previously up by 1.83%, initially up by 1.53%] in June 2015.

Annualized Quarterly Changes. The pace of annualized nominal retail sales decline in first-quarter 2015 remained at 4.04% (-4.04%), the worst quarter-to-quarter showing since the economic collapse.

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The nominal annualized quarterly growth for second-quarter 2015 retail sales revised to 6.81% [previously 6.87%, initially up by 6.04%]. Based solely on July and August 2015 reporting, the annualized third-quarter growth would be 4.76% [previously 3.94%, based solely on July reporting].

Net of inflation, the real retail sales change in first-quarter 2015 remained at an annualized quarterly contraction of 1.02% (-1.02%). The quarterly change in second-quarter real retail sales revised to a gain of 3.72% [previously 3.78%, initially up by 2.98%]. August's indication will be assessed in the tomorrow's September 16th CPI-U *Commentary*, but it should be solidly in positive territory.

August Core Retail Sales—Core Sales Growth. Reflecting an environment of generally rising food prices and an unadjusted monthly decline of 5.35% (-5.35%) in gasoline prices [Department of Energy], seasonally-adjusted monthly grocery-store sales rose by 0.65% in August 2015, with gasoline-station sales down by 1.85% (-1.85 %) for the month.

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

Version I: August 2015 versus July 2015 seasonally-adjusted retail sales series—net of total grocery store and gasoline station sales—reflected a monthly gain of 0.34%, versus the official headline aggregate sales increase of 0.19%.

Version II: August 2015 versus July 2015 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—reflected a monthly gain of 0.27%, versus the official headline aggregate sales increase of 0.19%.

Real (Inflation-Adjusted) Retail Sales—August 2015. The nominal gain of 0.19% in August 2015 retail sales was before accounting for inflation. The change in real retail sales for August will be published along with the headline estimate of consumer inflation for August 2015 in tomorrow's *Commentary No. 752* of Wednesday, September 16th. Consensus expectations [MarketWatch and Bloomberg] are for a flat-to-minimally-minus headline August CPI-U, which would suggest a headline monthly change in real August retail sales close to today's headline nominal August gain of 0.19% (see *Week Ahead* section). Real annual growth, however, should continue to signal imminent recession.

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

The adjustment issues here are the same as with the employment and unemployment series. The reporting fraud is not in the use of concurrent seasonal-factor adjustments *per se*, but rather in the Census Bureau's not publishing fully-consistent, historical data each month. As is the common pattern in all the headline monthly reporting for the retail series, the year-ago numbers of July 2014 and August 2014 were revised, along with the publication of the August 2015 data and revised detail on June 2015 and July 2015. The

year-ago revisions simply were junk reporting, due solely to shifts in their seasonal adjustments that resulted from the unique calculations of the seasonal factors that generated the headline August 2015 detail. The revisions were not due to the availability of any new historical data back in 2014, but due rather to just the inconsistent shifts in the published seasonal adjustments. Only the new details for July and August 2014 and for June and July 2015 were published on a basis consistent with the August 2015 number.

Specifically, the level of July 2014 revised lower 0.08% (-0.08%), following an upside revision of 0.12% last month. August 2014 revised lower by 0.11% (-0.11%), suggestive of downside, relative shifts in both the current July and August 2015 seasonals, from where they were implied to be last month and from what they likely would have been closer to in the old fixed-seasonal adjustment system. The net effect was neutral for headline August reporting, due to the shifting, but unreported seasonal factors.

Most commonly, the year-ago number is revised higher each month, with the effect—desired or otherwise—of boosting the seasonal adjustments for the headline month, minimizing the reporting of headline monthly contractions or maximizing the headline gains. All this happens without the specifics as to where headline activity has been shifted month-to-month. Full detail is available internally to the Census Bureau, but the Bureau chooses not to publish the detail.

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

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

WEEK AHEAD

Economic Reporting Generally Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with a Renewed Rebound in Oil Prices. Still in a fluctuating trend to the downside, amidst mixed reporting in headline data, market expectations for business activity nonetheless tend to move with the latest economic hype in the popular media. That general effect holds the consensus

outlook at overly-optimistic levels, with current expectations still exceeding any potential, underlying economic reality. Again, though, the expectations trend generally has continued to soften.

Headline reporting of the regular monthly economic numbers increasingly should turn lower in the weeks and months ahead, along with an eventual downside revision to the recently, upwardly-revised second-quarter GDP estimate, and along with likely downside or otherwise much weaker-than-expected reporting for at least the next several quarters of GDP (and GDI and GDP) into 2016.

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. It turned positive in June 2015, for the first time in six months, notched somewhat higher in July and has a fair shot of notching still higher in August, despite a headline monthly decline in gasoline prices and flat-to-minus expectations for the headline monthly CPI-U.

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 a 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*, *No. 692 Special Commentary: 2015 - A World Out of Balance* and in the *Hyperinflation Outlook Summary*.

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

Consumer Price Index—CPI (August 2015) ***[Updated for Consensus Expectations].*** The Bureau of Labor Statistics (BLS) will release the August 2015 CPI tomorrow, Wednesday, September 16th. The headline CPI-U should be close to unchanged, month-to-month, with headline annual inflation turning increasingly positive for the third month. Late-consensus expectations for headline, monthly CPI-U are for "unchanged" at 0.0% [Bloomberg] and a contraction of 0.1% (-0.1%) [MarketWatch].

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The average gasoline price moved lower in August 2015, by 5.35% (-5.35%) for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). While BLS seasonal adjustments to gasoline prices in August traditionally are sharply on the plus-side, they are enough only to narrow the drop in gasoline prices to about 3.9% (-3.9%) on a seasonally-adjusted basis. That one factor is enough to reduce the headline monthly CPI-U change by 0.17% (-0.17%). Higher food and "core" (net of food and energy) inflation largely should offset the impact of the lower gasoline prices, leaving the headline CPI-U basically flat for the month.

Annual Inflation Rate. Year-to-year, CPI-U inflation would increase or decrease in 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 "unchanged" in August 2015 CPI-U would push annual August 2015 inflation into a range of 0.2% to 0.3% (0.0% - [-0.08%] +0.17%), depending on rounding.

Real Retail Sales (August 2015) ***[Updated for Nominal Detail and Consensus CPI-U].*** Real (inflation-adjusted) retail sales for August will be published tomorrow in ShadowStats *Commentary No. 752* of September 16th, coincident with the detail on headline CPI-U reporting for August (see above). Based on today's headline reporting of nominal Retail Sales in August of 0.19% (see the *Opening Comments and Reporting Detail*) and a CPI-U that likely will be flat for the month, headline real retail sales would tend to a similar monthly gain, although real annual growth should continue to signal imminent recession.

Constraining retail sales activity, the consumer remains in an extreme liquidity bind with weakening confidence, detailed most recently in *Commentary No. 748* and updated in *Commentary No. 750* for July median household income and in today's *Opening Comments* for early-September consumer sentiment. Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise.

2015 Poverty Report. The Census Bureau's will release the annual reporting of *Income and Poverty in the United States* for 2014 tomorrow, Wednesday, September 16th. Where the annual poverty measures virtually are meaningless, some of the broad income measures are of substance. Discussed in *Commentary No. 748*, annual real median household income (deflated by the CPI-U) likely rose in 2014 versus 2013, but not enough to indicate any meaningful liquidity relief for consumers. Income dispersion likely intensified, still signaling a near-term crash/upheaval for the domestic financial markets. Last year's reporting was detailed in *Commentary No. 658*.

Residential Construction—Housing Starts (August 2015) ***[Updated for Consensus Expectations].*** The Census Bureau will release August 2015 residential construction detail on Thursday, September 17th. In line with common-reporting experience of recent years, monthly results are likely to be unstable and not statistically meaningful, holding in general pattern of down-trending stagnation. Late-consensus

expectations are for a headline monthly decline of 3.2% to 3.3% (-3.2% to -3.3%) versus the initial headline reporting of July 2015 activity [Bloomberg, Market Watch], but, again, such a change would not be statistically significant.

Irrespective of the headline detail, the broad pattern should remain generally consistent with the low-level and down-trending stagnation seen currently in the series. Such is particularly evident with the detail viewed in the context of a six-month moving average of activity. This series also is subject to regular and extremely-large prior-period revisions.

As discussed in *Commentary No. 660* on the August 2014 version of this most-unstable of major monthly economic series, the monthly headline reporting detail here simply is worthless. The series best is viewed in terms of a six-month moving average. Again, not only is month-to-month reporting volatility often extreme, but also those headline monthly growth rates rarely come close to being statistically significant.

Payroll Employment Benchmark Revision—2015 Initial Estimate. The Bureau of Labor Statistics (BLS) will announce its preliminary estimate of the benchmark revision to March 2015 payroll employment (the base for the 2015 revision) on Thursday, September 17th. Discussed in *Commentary No. 749* (see *Birth-Death Model* section), recent, more-frequent quarterly benchmarking already has indicated likely overestimation of payroll growth earlier in 2015, significantly raising the odds of a downside, headline benchmark revision.

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