John Williams'

Shadow Government Statistics

Analysis Behind and Beyond Government Economic Reporting

COMMENTARY NUMBER 759
September Consumer Price Index, Real Retail Sales and Earnings

October 15, 2015

Financial Markets Are Starting to Take Note of
Faltering U.S. Economic Activity and Perceived Fed Impotence

Average Weekly Earnings Fell in September for "All Employees,"
Both Before and After Adjustment for Inflation

Monthly Real Retail Sales Rose by 0.26% in September, with
Annual Growth Still Signaling Imminent Recession

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

Having Pummeled Headline August and September Inflation,
Gasoline Prices Are on Track to Boost the October CPI

PLEASE NOTE: The next regular Commentary*, scheduled for tomorrow, Friday, October 16th, will cover September Industrial Production.*

Best wishes to all! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Shifting Markets Reflect Growing Global Uncertainties. As conventional wisdom gets pushed aside as to domestic economic and systemic stability, increasing activity has been evident in flight from the U.S. dollar and some movement into precious metals. These areas are discussed along with the regular graphs of the U.S. dollar, and gold versus the Swiss franc, silver and oil in the *Hyperinflation Watch*.

The Government Has Designed and Altered the CPI Measures to Its Fiscal Needs, Not to the Financial Needs of the U.S. Public. Although the pace of headline annual CPI-U inflation held near zero in September, again, 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. In like manner, having a zero increase in the Cost of Living Adjustment (COLA) for Social Security recipients is nonsense at best, criminal at worst.

Some decades back, former Federal Reserve Chairman Alan Greenspan expressed a concept—then already in play—that the White House and Congress have acted on repeatedly and have continued to embrace, even in recent budget negotiations. Greenspan claimed that the CPI used for items such as the COLA for Social Security was overstated. If only the government had a more accurate measure (meaning showing lower inflation), the federal government could save billions of dollars then being "wasted."

The "more accurate" measures were purely definitional, aimed at generating the lowest inflation rate possible, irrespective of the needs of a public that otherwise depended on and trusted the government's numbers. The government redefined and continues to redefine its inflation measures so as to maximize federal income and to minimize federal expenses, rather than to provide the public with a useful measure of inflation or with the promised compensation for the Federal Reserve's continual debasement of the U.S. dollar. As a result, today's Social Security checks are less than half of what they would have been, if the gimmicked inflation measurements had not been introduced.

Inflation, as viewed from the standpoint of common experience—generally viewed by the public in terms of personal income needs or investment use—continues to run well above any of the government's current headline inflation measures. The pace of inflation has been understated, through politically-orchestrated efforts to adjust for the equivalent of 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 being made to prices.

Contrary to its traditional structure, the CPI no longer reflects the cost of living of maintaining a constant standard of living, and it does not reflect out-of-pocket expenses. 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.

Once again, allowing for the earlier CPI methodologies, actual year-to-year consumer inflation is not close to flat, minus or the headline "zero" of September 2015. The ShadowStats Alternate Inflation Measures—designed to reflect inflation as it would have been before various redefinitions—was at 3.5% annual inflation in September, based on 1990 methodologies, and at 7.6% in September, based on 1980 methodologies. These areas are discussed in *Public Commentary on Inflation Measurement*.

Updated Economic Outlook. Noted in *Commentary No. 758*, coincident with the housing starts release on October 20th, in *Commentary No. 761* of that date, ShadowStats will review its broad economic outlook and provide an estimate of initial headline GDP-growth reporting for third-quarter 2015, to be reported by the Bureau of Economic Analysis (BEA) on October 29th. The general outlook has not changed and is not likely to change in the near-term. Moving from protracted low-level stagnation—not a robust economic recovery—broad U.S. economic activity has entered a period of renewed downturn, one that eventually should gain recognition as a "new" recession, timed from a likely formal onset of December 2014.

Today's *Commentary* (October 15th). The balance of these *Opening Comments* provides summary coverage of the September Consumer Price Index and related real Retail Sales and Earnings. The *Hyperinflation Watch* includes the regular dollar and gold graphs, but the *Outlook Summary* has not been changed. The *Week Ahead* previews the September Industrial Production and Housing Starts releases.

Consumer Price Index (CPI)—September 2015—Having Hit Headline Inflation Hard, Gasoline Deflation Has About Run Its Course. Wild gyrations in oil and gasoline prices—often side effects of major movements in the U.S. dollar—have dominated headline consumer inflation reporting in recent years. Heavy hits to the price of gasoline have pushed headline CPI negative for the most recent two months, and to virtually unchanged year-to-year in September, but that appears ready to change with next month's October reporting.

Down about 10% (-10%) month-to-month in September, unadjusted retail gasoline prices have stabilized in October versus September, so far. Further, gasoline-price seasonal adjustments traditionally are strongly positive in October. With the U.S. dollar coming under some selling pressure (see the *Gold Graphs* section in the *Hyperinflation Watch*), conditions appear likely to boost headline CPI-U inflation meaningfully, at least in the next month or two.

Going forward, annual inflation readings should become increasingly positive, thanks partially to annual inflation comparisons going against softer inflation of the year before, which had been hit then by collapsing oil and gasoline prices.

CPI-U. The seasonally-adjusted September 2015 CPI-U contracted month-to-month by a headline 0.15% (-0.15%). That followed a headline month-to-month August decline of 0.07% (-0.07%). The headline month-to-month decline in September CPI inflation was at the more-inflationary end of consensus expectations, which ranged from a monthly decline of 0.2% (-0.2%) to 0.3% (-0.3%).

Hit hard, in aggregate by falling gasoline prices, adjusted headline inflation was boosted slightly in September by seasonal factors. On a not-seasonally-adjusted basis, the September 2015 CPI-U was down by 0.16% (-0.16%) month-to-month, following an unadjusted decline of 0.14% (-0.14%) in August.

Seasonally-adjusted third-quarter 2015 CPI-U inflation rose at an annualized quarterly pace of 1.58%, versus 2.98% for second-quarter 2015 and a contraction of 3.06% (-3.06%) in first-quarter 2015.

Not seasonally adjusted, September 2015 year-to-year inflation for the CPI-U fell by 0.04% (-0.04%), following an unadjusted headline annual gain of 0.20% in August 2015. Also unadjusted, year-to-year CPI-U was up by 0.11% in third-quarter 2015, down by 0.04% (-0.04%) in second-quarter 2015 and down by 0.06% (-0.06%) in first-quarter 2015.

CPI-W. The September 2015 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, fell month-to-month by 0.29% (-0.29%), versus an unadjusted decline of 0.30% (-0.30%). That followed an adjusted August decline of 0.11% (-0.11%), which was down by an unadjusted 0.19% (-0.19%) for the month.

Seasonally-adjusted third-quarter 2015 CPI-W inflation rose at annualized quarterly pace of 1.47%, versus 3.35% in second-quarter 2015 and an annualized contraction of 4.41% (-4.41%) in first-quarter 2015.

Unadjusted, September 2015 year-to-year CPI-W inflation fell by 0.64% (-0.64%), versus an annual contraction of 0.28% (-0.28%) in August 2015. Unadjusted, year-to-year CPI-W fell by 0.41% (-0.41%) in third-quarter 2015, having been down by 0.59% (-0.59%) in second-quarter 2015 and down by 0.68% (-0.68%) in first-quarter 2015.

Social Security COLA. The unadjusted, year-to-year decline of 0.41% (-0.41%) in third-quarter 2015 CPI-W will be used to set the annual Cost of Living Adjustment (COLA) for Social Security. Discussed in *Commentary No. 757*, negative annual CPI-W inflation means there will be no COLA increase in 2016 for Social Security recipients. Inflation reality as reflected in common experience, versus the government's successful efforts at artificially-reducing COLA adjustments, is discussed in the opening paragraphs of these *Opening Comments*, and in the *Public Commentary on Inflation Measurement*.

Chained-CPI-U. Initial reporting of unadjusted year-to-year inflation for the September 2015 C-CPI-U was a decline of 0.45% (-0.45%), versus a contraction of 0.13% (-0.13%) in August 2015.

Alternate Consumer Inflation Measures. The ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 3.5% in September 2015, versus 3.8% in August 2015. The September 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 7.6% year-to-year, versus 7.8% in August 2015.

Real Retail Sales—September 2015—Nominal Headline Gain of 0.10% Boosted to 0.26% by CPI-U Contraction of 0.15% (-0.15%); Recession Signal Continued. Not adjusted for inflation, headline nominal retail sales rose by 0.10% in September 2015, following a downwardly-revised 0.03% gain in August, as detailed in yesterday's *Commentary No. 758*. Year-to-year growth in September 2015 nominal retail sales rose by 2.36%, following a downwardly-revised 2.04% annual gain in August 2015.

Headline Reporting of Real Retail Sales. Based on the headline monthly contraction of 0.15% (-0.15%) in the seasonally-adjusted September CPI-U, and in the context of a contraction of 0.07% (-0.07%) in the August CPI-U, September real retail sales rose month-to-month by 0.26%, while August real retail sales rose by a downwardly revised 0.10%. Patterns of monthly activity and year-to-year growth in real sales are plotted in *Graphs 9* to *12* in the *Reporting Detail* section, both on scales of 2000-to-date and post-World War II-to-date.

Where first-quarter 2015 real retail sales contracted at an annualized pace of 1.02% (-1.02%), and annualized growth for second-quarter 2015 was an unrevised 3.72%, third-quarter growth—based on initial full reporting—slowed somewhat to 3.17%, versus second-quarter growth.

Real Year-to-Year Growth Still Generated a Continuing Recession Signal. With seasonally-adjusted headline year-to-year CPI-U inflation down by 0.03% (-0.03%) in September 2015, and up by 0.22% in August 2015, year-to-year growth in September 2015 real retail sales was 2.38%, versus a downwardly-revised August 2015 annual gain of 1.84%.

In normal economic times, annual real growth at or below 2.0% signals an imminent recession. That signal had been given in February, April, June and August 2015, indicating a deepening downturn. Although those readings have been interspersed with somewhat higher readings in March, May and July, and with September above the threshold, again, the average level of real year-to-year growth for the last six months was 2.01%. Current reporting remains consistent with a signal of imminent recession, with the latest activity, shown in perspective in *Graphs 10* and *12* of the *Reporting Detail* section.

Discussed in yesterday's *Commentary No. 758*, the primary issues constraining headline retail sales activity remain intense, structural-liquidity woes besetting the consumer, such as indicated in *Graph 3* of real average weekly earnings, in the next section. Those circumstances—in the last eight-plus years of economic collapse and stagnation—have 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 in real personal consumption.

As official consumer inflation resumes its upside climb in the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze, these data should resume trending meaningfully lower, in what increasingly has started to gain recognition as a formal "new" or double-dip/ multiple-dip recession.

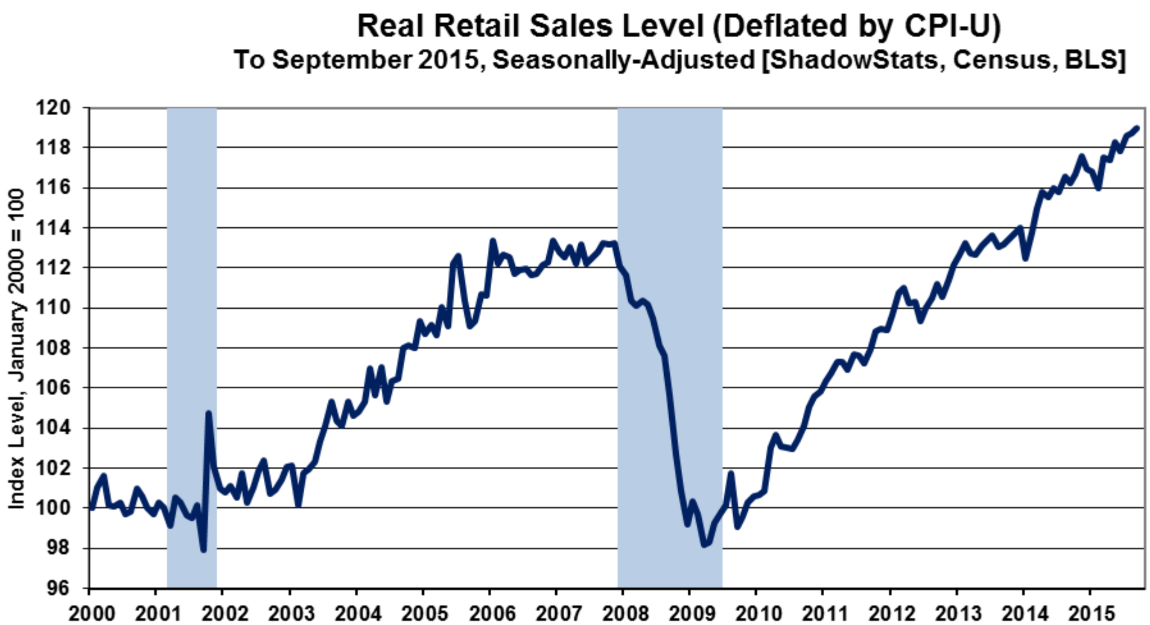
Corrected Real Retail Sales—September 2015**.** The apparent "recovery" of headline real retail sales shown in *Graph 1* generally continued into late-2014, although headline reporting turned down in December 2014, into first-quarter 2015 and has turned higher, again, into third-quarter 2015. Nonetheless, headline real growth in retail sales continues to be overstated heavily, due to the understatement of the rate of inflation used in deflating the retail sales series. 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 the regular plots of 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.

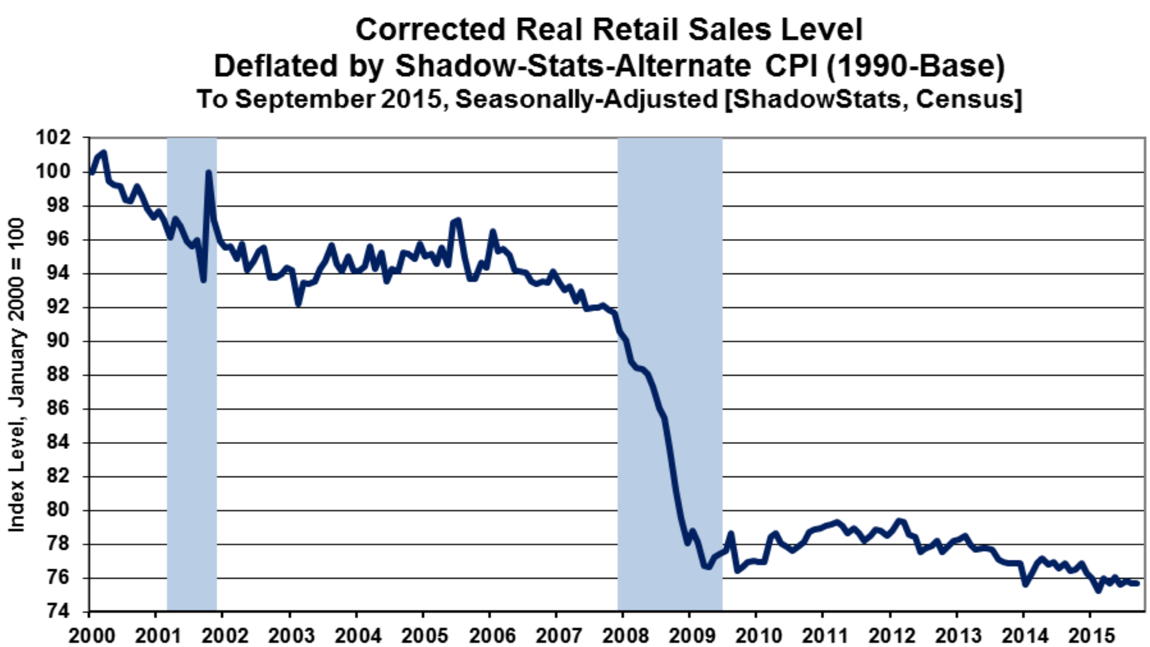
Instead of being deflated by the CPI-U, the "corrected" real retail sales numbers—in *Graph 2*—use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation. With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation and renewed downturn, 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 prior *Commentary No. 758*).

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 into 2009. The renewed contraction has trended into and deepened into the first nine months of 2015, allowing for the occasional and temporary upside blips.

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



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



Real Earnings—September 2015— Nominal and Real Average Earnings Fell in the Month. Per the BLS, September 2015 headline average weekly earnings declined by 0.33% (-0.33%) in the month, for all employees on private nonfarm payrolls. A similar headline decline of 0.30% (-0.30%) was seen for those classified in the subcategory of production and nonsupervisory employees. The earnings decline was due primarily to declining work hours and was before adjusting for inflation.

The BLS uses different inflation measures for adjusting earnings, depending on the nature of the employee. All employees have their earnings deflated by the CPI-U, which dropped by 0.15% (-0.15%) for the month in September, which meant that their real average weekly earnings fell by 0.17% (-0.17%) in the month, with a rounding difference.

Enjoying the relative benefit of lower inflation, from the higher weighting of gasoline in the calculation of the CPI-W, production and nonsupervisory employees experienced a greater pace of deflation in September (as did Social Security COLA recipients), along with relatively stronger, though still-negative real earnings. Per the BLS, the headline CPI-W declined by 0.28% (-0.28%) for the month, which meant that real average weekly earnings for those employees declined by 0.01% (-0.01%), again with a rounding difference.

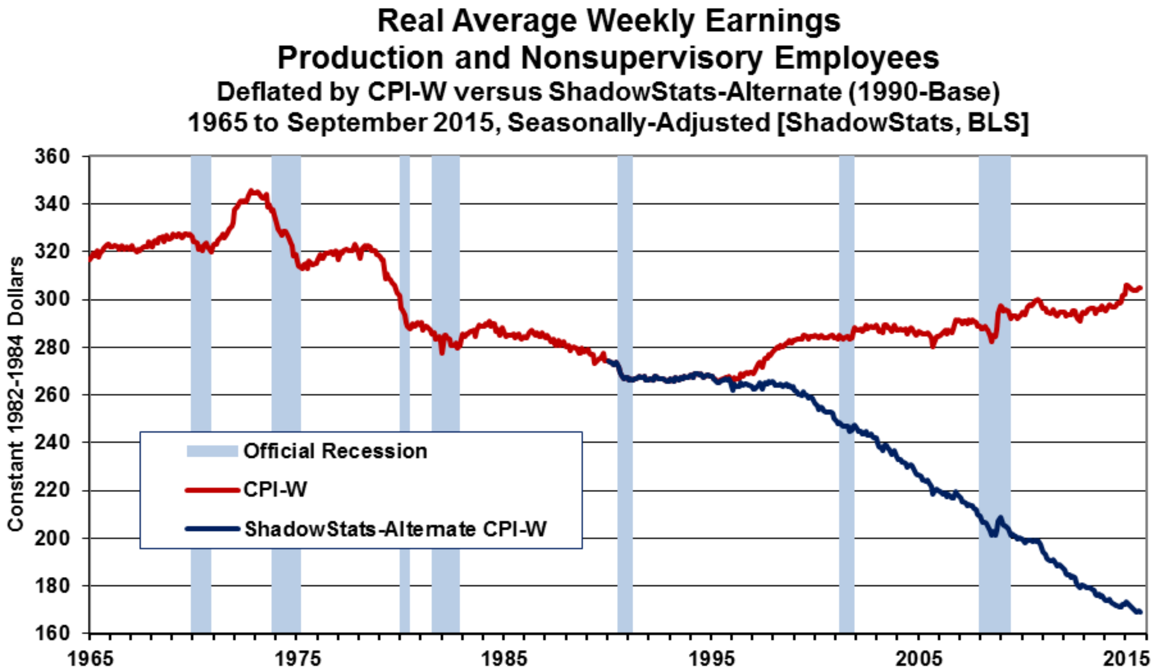
Production and Nonsupervisory Employees. In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings in September, again, were boosted by negative CPI-W inflation of 0.28% to a decline of 0.01% (-0.01%). That followed an upwardly revised real headline gain of 0.39% in August earnings and an unrevised gain of 0.06% in July. The September detail and August revision reflected the usual surveying and seasonal-factor instabilities common to BLS reporting.

Quarterly Changes. Second-quarter 2015 real earnings showed an unrevised annualized contraction of 2.22% (-2.22%), versus a 6.22% annualized quarterly gain in first-quarter 2015. Based on initial full reporting for third-quarter 2015, annualized quarterly growth was 0.97%.

Annual Change. Year-to-year and seasonally-adjusted, September 2015 real average weekly earnings rose by 2.28%, versus a revised annual gain of 2.19% in August 2015 and an unrevised 2.15% gain in July 2015. Unadjusted, year-to-year change was 2.62% in September 2015, versus a revised 3.69% in August 2015 and an unrevised 2.26% gain in July 2015. Both the monthly and annual fluctuations in this series are irregular, but current reporting remains well within the normal bounds of volatility, with the occasional exception of unusual patterns resulting from negative inflation, and falling gasoline prices.

The accompanying *Graph 3* 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 the opening paragraphs of these *Opening Comments* and *Public Commentary on Inflation Measurement* for further detail.

Graph 3: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date



[The **Reporting Detail** *includes expanded information on the CPI, Real Retail Sales and Earnings.]*

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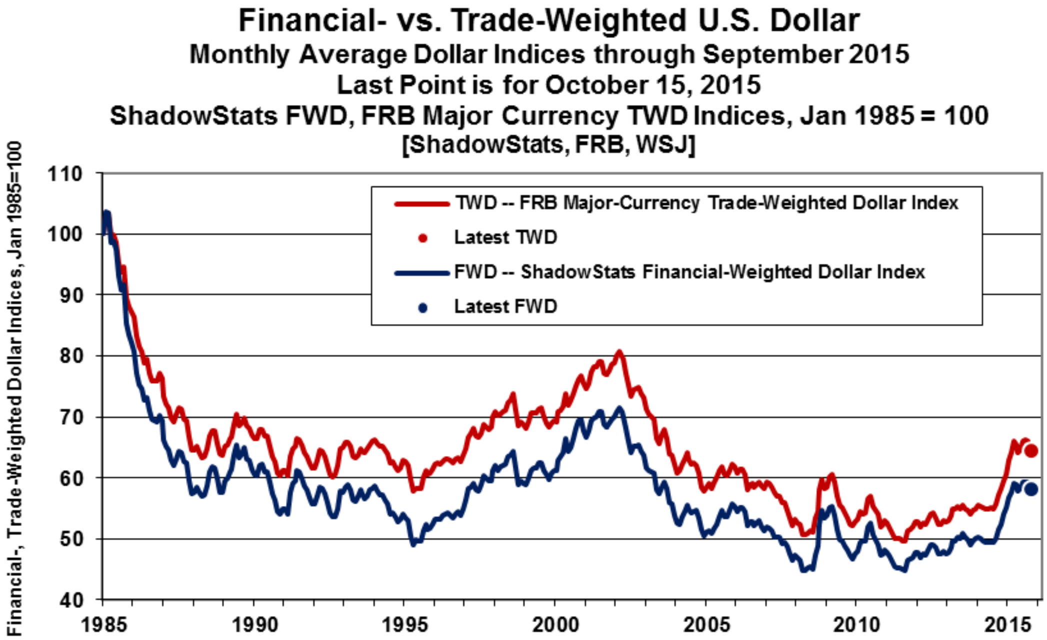
HYPERINFLATION WATCH

GOLD GRAPHS, FOMC AND THE U.S. DOLLAR

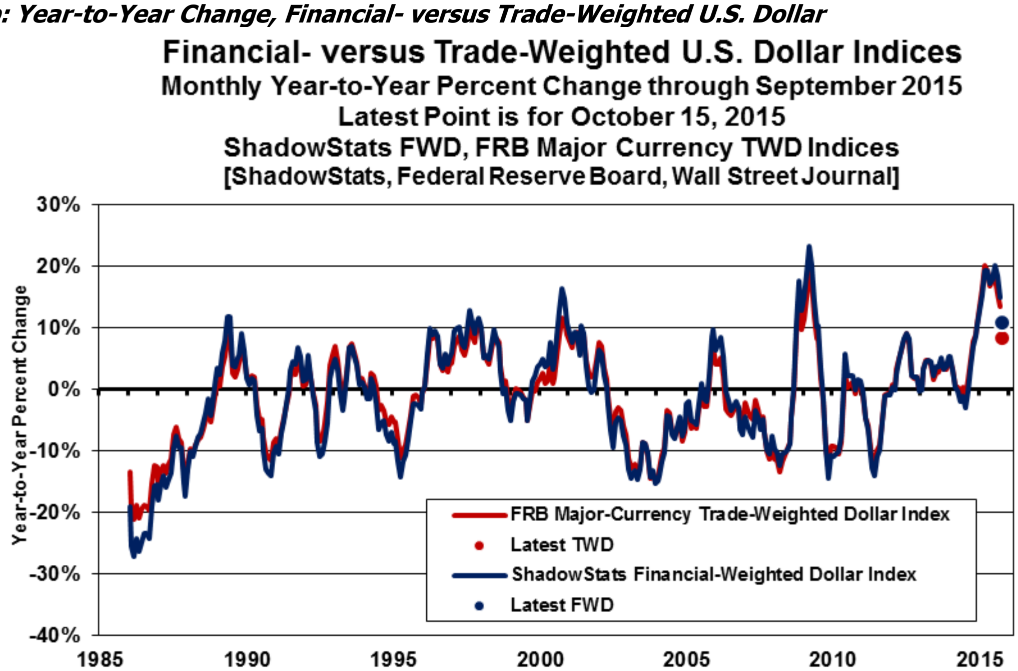
Monthly Gold Graphs and Related Comments—Unfolding Economic Reality and Fed Befuddlement Begin to Take a Toll. The monthly plot of the U.S. Dollar (*Graphs 4a* and *4b*) and the three traditional gold graphs (*Graphs 5, 6* and *7*) that accompany the CPI *Commentaries* follow. The "Latest October" points in the graphs reflect mid-afternoon New York prices for October 15th.

In response to an increasingly-obvious downturn in U.S. economic activity, as well as to the continued inaction, befuddlement and/or impotency of the Federal Reserve Board and its Federal Open Market Committee (FOMC), the global markets appear to have started shifting away from the U.S. dollar in favor of other major currencies and precious metals, recently. Such is broadly consistent with recent comments here (see for example *Commentary No. 754*). The dynamics of intensifying, negative shifts in global perceptions of U.S. economic activity and U.S. systemic stability rapidly should gain dominance in driving the U.S. currency and equity markets, irrespective of any Fed activity or lack of same.

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

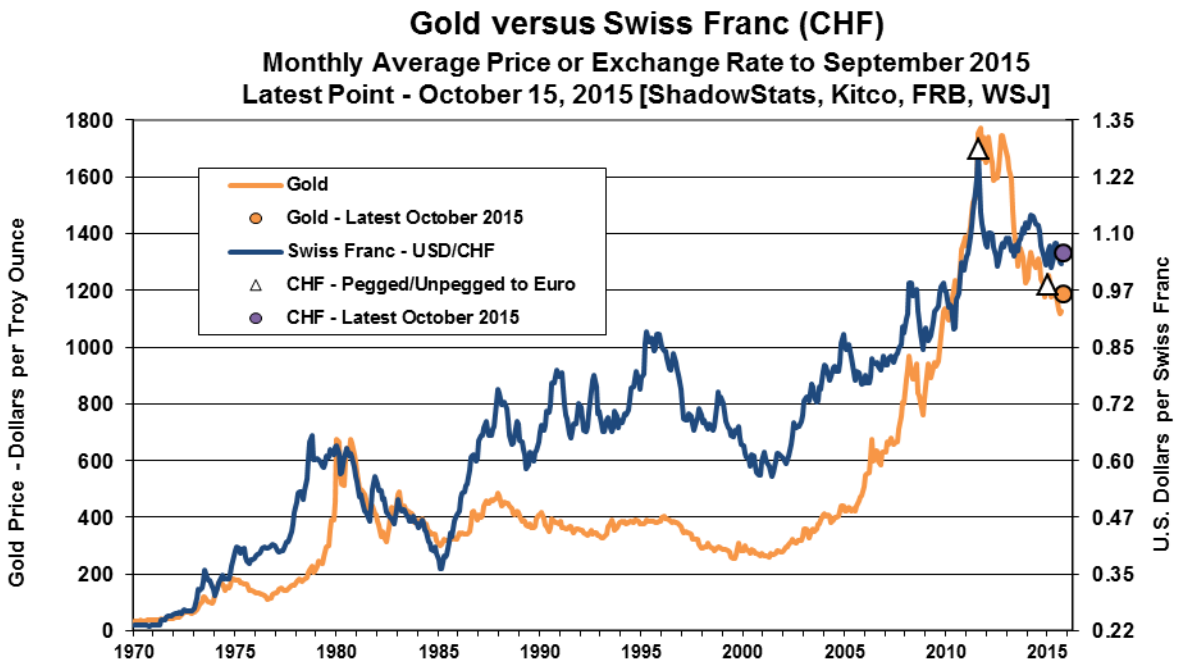


Graph 4b: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar

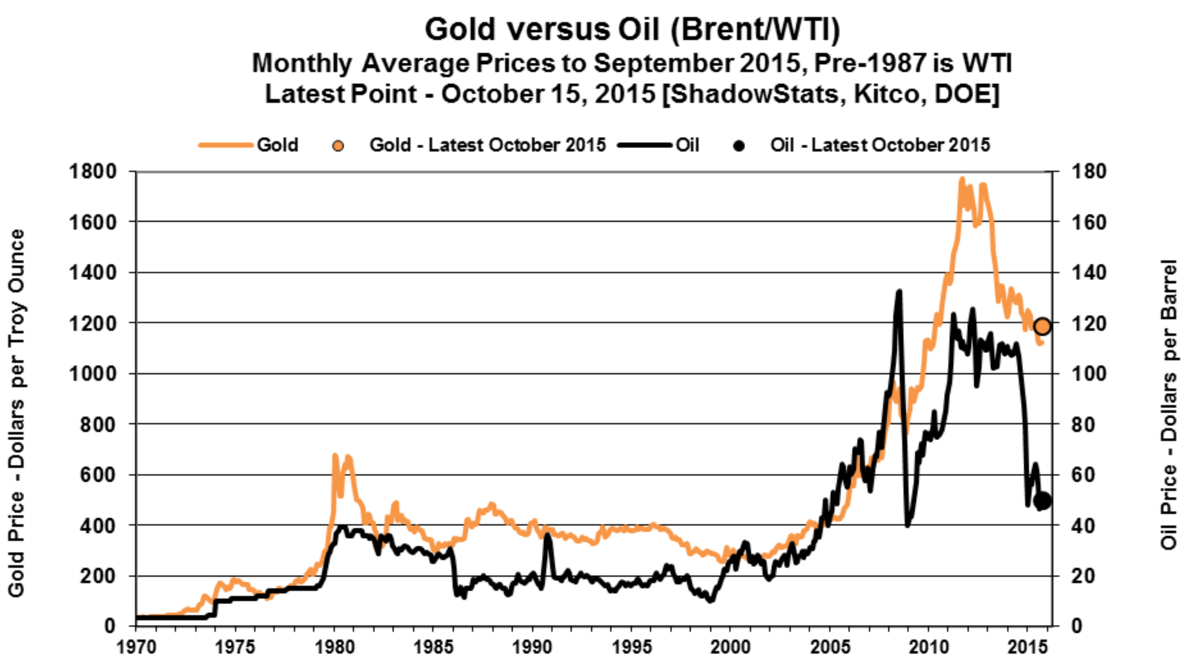


The myriad negative implications of a deepening downturn in U.S. business activity should trigger heavy selling pressure against the U.S. currency. As the developing sell-off in the U.S. dollar gains broadly-based momentum, offsetting sharp rallies should be seen, on a coincident basis, for gold and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

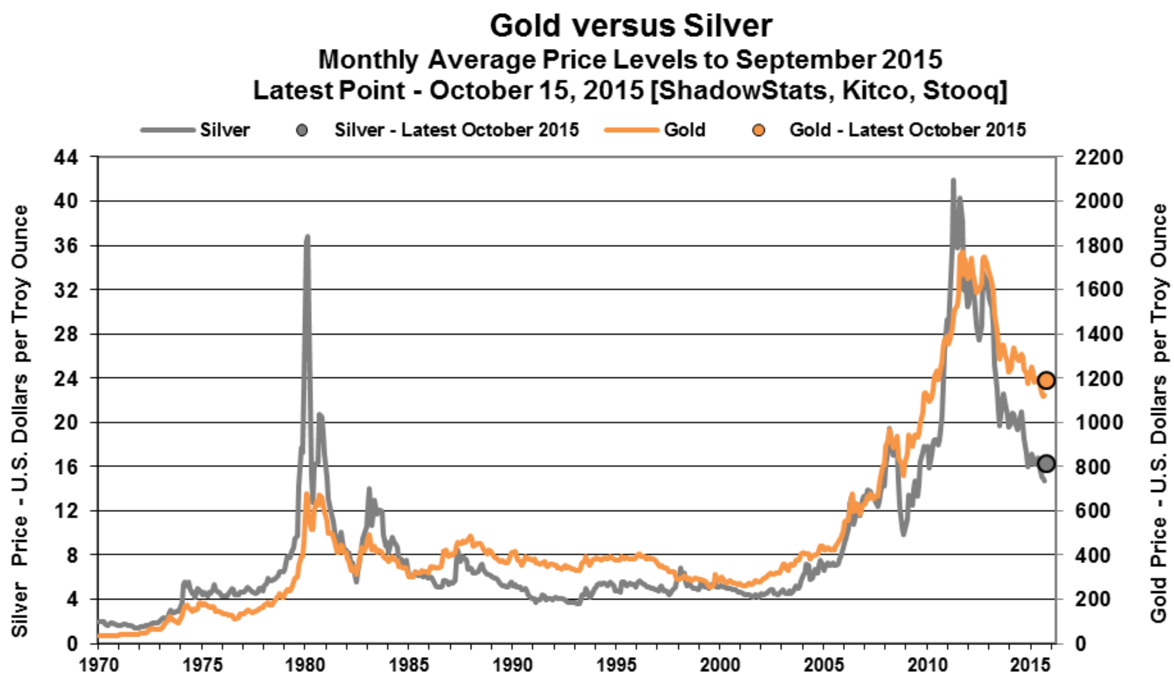
Graph 5: Gold versus the Swiss Franc



Graph 6: Gold versus Oil



Graph 7: Gold versus Silver



Continuing strength in the exchange-rate value of the U.S. dollar against other major Western currencies has been 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, to the stronger Western currencies and precious metals, likely much sooner than later, and quite possibly with little advance warning. The various issues also were discussed broadly recently in the August 10th *No. 742 Special Commentary: A World Increasingly Out of Balance* and in *Commentary No. 743* of August 17th.

HYPERINFLATION OUTLOOK SUMMARY

Broad Outlook Is Unchanged: Economy Remains in Downturn; Questions Mount on Systemic Stability; Dollar Faces Massive Decline with Ongoing Implications for Hyperinflation. This *Summary* has not been changed since *Commentary No. 754* of September 24th, other than for updated internal references or links and minor language corrections.

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 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 in the wake of an extraordinary rally seen since June 2014, and in the context of a renewed economic downturn, ongoing domestic fiscal imbalances and ongoing financial-system instabilities. Financial-system concerns likely are the primary reason behind the inability or unwillingness of the Federal Reserve's Federal Open Market Committee (FOMC) to raise interest rates. Those factors have implications for a meaningful upturn in domestic inflation, eventually evolving into a great hyperinflationary crisis.

Indeed, symptomatic of a financial system in serious distress, the FOMC remains unable or unwilling to move decisively on raising interest rates, to move the financial system towards monetary normalcy. Continued inaction or waffling by the Fed has begun to shift the focus and concerns of domestic and global investors away from what appears increasingly to be perpetual moribund economic activity into the areas of systemic instabilities, prospective or otherwise, that are so troubling to the U.S. central bank (see *Commentary No. 750* and *Commentary No. 754*). Fed policy inaction, if anything, has exacerbated the long-term economic stagnation and renewed business downturn, where the quantitative easings always were intended as covert bailouts for the banking system, under the political cover of a weak economy (see for example, the *Monetary Conditions* section of *Commentary No. 756*).

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 into 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, and despite some fluttering, into August. Initially, the rally reflected 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, and more recently to confirm fears 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 (such did not happen). 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*, *Commentary No. 751* and *Commentary No. 755*), with a variety of key indicators, such as industrial production, real retail sales and revenues of the S&P 500 companies continuing to show recession. Although formal recognition could take months, consensus recognition of 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 recession likely will be December 2014.

As market expectations move towards an imminent, new recession, such not only should reduce expectations for a significant tightening in Fed policy, but also should 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 should 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. Fed tightening likely is not now on the horizon until after the 2016 presidential election. Suggestions that all was right again with world were nonsense. The Fed's games likely now will be played out as far as possible, with hopes, once again, of avoiding a financial-system collapse.

Inaction by the FOMC on September 17th was 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 now of higher rates before year-end or next year, banking-system issues (not the economy) may keep the "pending" interest rate hike in a continual state of suspension. The economy certainly will supply continuing political cover for the Fed's "inaction," with the U.S. central bank having lost control of the system.

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 political system, 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. 758*, and today's reporting of September real earnings). Sharply-negative economic reporting shocks, versus softening consensus forecasts, remain a heavily-favored, proximal trigger for intensifying the pending dollar debacle (see *Opening Comments* of *No. 756*).

- ***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 that is within a month of being in crisis (see *Opening Comments* of *No. 756*).

- ***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 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 remain nil. Issues such as non-recovered, faltering economic activity, the consumer liquidity crisis and the nation's long-range solvency issues should continue to devolve into extreme political crises.

- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are 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. Slack demand for U.S. Treasuries always can be taken up by the Federal Reserve's renewed monetization of the debt.

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

REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (September 2015)

Having Hit the CPI Hard, Gasoline Deflation Has About Run Its Course. Wild gyrations in oil and gasoline prices—often side effects of major movements in the U.S. dollar—have dominated headline consumer inflation reporting in recent years. Heavy hits to the price of gasoline have pushed headline CPI negative for the most recent two months, and virtually unchanged year-to-year, but that appears ready to change with next month's October reporting.

Down about 10% (-10%) month-to-month in September, unadjusted retail gasoline prices have stabilized in October versus September, so far. Further, gasoline-price seasonal adjustments traditionally are strongly positive in October. With the U.S. dollar coming under some selling pressure (see the *Gold Graphs* section in the *Hyperinflation Watch*), conditions appear likely to boost headline CPI-U inflation meaningfully in at least the next month or two.

Going forward, annual inflation readings should be increasingly positive, thanks partially to annual inflation comparisons increasingly going against softer inflation of the year before, which had been hit then by collapsing oil and gasoline prices.

A sustained increase in energy prices would push headline CPI-U inflation sharply higher, and the recent downturn in oil prices, already is off bottom. Distorted oil industry economics and wavering Cartel gimmicks increasingly should alter circumstances in favor of maintaining upside, short-term pricing pressures. Near-term selling pressure against the U.S. dollar also should continue to mount and intensify, quickly becoming the dominant factor spiking dollar-denominated oil prices and other inflationary pressures.

Separately, although the pace of annual CPI-U inflation in September held near zero, again, 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 held at 3.5% annual inflation in September, based on 1990 methodologies, and held at 7.6% annual inflation in September, based on 1980 methodologies, as discussed in the *Opening Comments.*

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 have surfaced and have begun to accelerate. 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 and may do so with little further warning (see the *Gold Graphs* section in the *Hyperinflation Watch* and *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, October 15th, that headline, seasonally-adjusted September 2015 CPI-U fell month-to-month by 0.2% (-0.2%), which was a drop of 0.15% (-0.15%) at the second decimal point. That followed a headline month-to-month August decline of 0.1% (-0.1%), which was down by 0.07% (-0.07%) at the second decimal point. The headline month-to-month decline in September CPI inflation of 0.15% (-0.15%) was at the more-inflationary end of consensus expectations, which ranged from a monthly decline of 0.2% (-0.2%) to 0.3% (-0.3%).

Hit hard, in aggregate by falling gasoline prices, adjusted headline inflation was boosted slightly in September by seasonal factors. On a not-seasonally-adjusted basis, the September 2015 CPI-U was down by 0.16% (-0.16%) month-to-month, following an unadjusted decline of 0.14% (-0.14%) in August.

Monthly gasoline-inflation seasonal adjustments were positive for September 2015, but not enough to turn headline inflation positive. The BLS reported unadjusted gasoline prices down by 10.10% (-10.10%) for the month, versus a drop of 9.14% (-9.14%) on a not-seasonally-adjusted basis, per the Department of Energy (DOE). Seasonally-adjusted gasoline prices still fell by 8.98% (-8.98%) in September, per the BLS. As with gasoline, aggregate energy-inflation seasonal adjustments also were positive for the month.

Falling Gasoline Prices Have Run Their Near-Term Course. Negative headline CPI inflation in August and September 2015 was dominated by falling gasoline prices, a circumstance that should reverse with October's headline CPI reporting. Unadjusted retail gasoline prices have stabilized in October versus September, so far, and gasoline-price seasonal adjustments traditionally are strongly positive in October. Conditions appear likely to boost headline CPI-U inflation in the month ahead.

Major CPI-U Groups. Encompassed by the seasonally-adjusted decline of 0.15% (-0.15%) in the September 2015 CPI-U [down by an unadjusted 0.16% (-0.16%)], aggregate September energy inflation fell for the month by a seasonally-adjusted 4.73% (-4.73%) [down by an unadjusted 5.44% (-5.44%)]. In the other major CPI sectors, adjusted September food and beverage inflation rose by 0.36% [up by 0.36% unadjusted], while adjusted "core" inflation rose by 0.21% [up by 0.29% unadjusted] for the month. Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 1.89% in September 2015, versus 1.83% in August 2015.

Quarter-to-Quarter CPI-U. Seasonally-adjusted CPI-U inflation in third-quarter 2015 rose at annualized quarterly pace of 1.58%, versus 2.98% annualized inflation in second-quarter 2015 and an annualized contraction of 3.06% (-3.06%) in first-quarter 2015.

Year-to-Year CPI-U. Not seasonally adjusted, September 2015 year-to-year inflation for the CPI-U was "unchanged" at 0.0% at the first decimal point, down by 0.04% (-0.04%) at the second decimal point. That followed a headline annual gain in August 2015 of 0.2% at the first decimal point, up by 0.20% at the second decimal point.

Unadjusted, year-to-year CPI-U was up by 0.11% in third-quarter 2015, down by 0.04% (-0.04%) in second-quarter 2015 and down by 0.06% (-0.06%) in first-quarter 2015.

Year-to-year, CPI-U inflation would increase or decrease in next month's October 2015 reporting, dependent on the seasonally-adjusted monthly change, versus the adjusted, headline inflation gain of 0.05% for October 2014. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for October 2015, the difference in October's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the minimal September 2015 negative annual inflation rate of 0.04% (-0.04%). For example, a seasonally headline monthly gain of 0.1% in October 2015 CPI-U would be needed to move the annual October 2015 inflation back into minimally-positive territory of about 0.01% (0.10% - 0.05% + [-0.04%]), depending on rounding.

CPI-W and the 2016 Social Security COLA. The September 2015 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, fell month-to-month by 0.29% (-0.29%), versus an unadjusted decline of 0.30% (-0.30%). That followed an adjusted August decline of 0.11% (-0.11%), which was down by an unadjusted 0.19% (-0.19%) for the month.

Quarter-to-Quarter CPI-W. Seasonally-adjusted CPI-W inflation in third-quarter 2015 rose at annualized quarterly pace of 1.47%, versus 3.35% annualized inflation in second-quarter 2015 and an annualized contraction of 4.41% (-4.41%) in first-quarter 2015.

Year-to-Year CPI-W. Unadjusted, September 2015 year-to-year CPI-W inflation fell by 0.64% (-0.64%), versus an annual contraction of 0.28% (-0.28%) in August 2015.

Social Security COLA. Unadjusted, year-to-year CPI-W was down by 0.41% (-0.41%) in third-quarter 2015, which will be used to set the annual Cost of Living Adjustment (COLA) for Social Security. Discussed in *Commentary No. 757*, negative annual CPI-W inflation in the third quarter means there will be no COLA increase in 2016 for Social Security recipients. Inflation reality as reflected in common experience, versus the government's successful efforts at artificially-reducing COLA adjustments, is discussed in the *Opening Comments* and in the *Public Commentary on Inflation Measurement*.

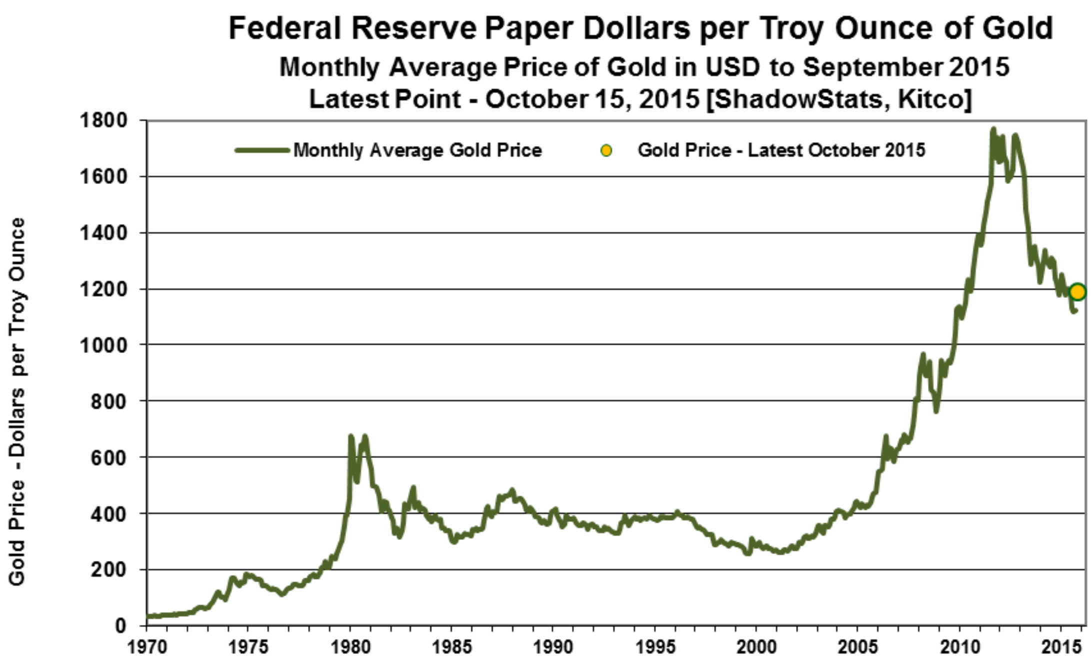
The CPI-W also was down by 0.59% (-0.59%) year-to-year in second-quarter 2015 and down year-to-year by 0.68% (-0.68%) in first-quarter 2015.

Chained-CPI-U. Initial reporting of unadjusted year-to-year inflation for the September 2015 C-CPI-U was a decline of 0.45% (-0.45%), versus a contraction of 0.13% (-0.13%) in August 2015.

See the discussions in the earlier CPI *Commentary No. 721* and in the opening notes in the *CPI Section* of *Commentary No. 699* as to recent changes in the series. More-frequent revisions and earlier finalization of monthly detail are designed to groom the C-CPI-U series as the new Cost of Living Adjustment (COLA) index of choice for the budget-deficit-strapped federal government.

Alternate Consumer Inflation Measures. Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 3.5% in September 2015, versus 3.8% in August 2015. The September 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 7.6% (7.55% for those using a second decimal point) year-to-year, versus 7.8% in August 2015. The ShadowStats-Alternate Consumer Inflation Measures are discussed in today's *Opening Comments*.

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



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

CPI-U: GOLD at $2,600 per Troy Ounce, SILVER at $151 per Troy Ounce
ShadowStats: GOLD at $12,176 per Troy Ounce, SILVER at $708 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 $2,600 per troy ounce, based on September 2015 CPI-U-adjusted dollars, and $12,176 per troy ounce, based on September 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 September 2015 CPI-U inflation, the 1980 silver-price peak would be $151 per troy ounce and would be $708 per troy ounce in terms of September 2015 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

As shown in Table 1, on page 31 of *2014 Hyperinflation Report—The End Game Begins – First Installment Revised*, over the decades, the increases in gold and silver prices have compensated for more than the loss of the purchasing power of the U.S. dollar as reflected by CPI inflation. They also effectively have come close to fully compensating for the loss of purchasing power of the dollar based on the ShadowStats-Alternate Consumer Price Measure (1980-Methodologies Base).

Real (Inflation-Adjusted) Retail Sales—September 2015—Monthly Nominal Gain of 0.10% Boosted to 0.26% by Headline CPI-U Contraction of 0.15% (-0.15%); Recession Signal Continued. Not adjusted for inflation, headline nominal retail sales rose by 0.10% in September 2015, following a downwardly-revised 0.03% [previously 0.19%] gain in August, as detailed in yesterday's *Commentary No. 758* of October 14th. Year-to-year September 2015 nominal retail sales rose by 2.36%, following a downwardly-revised 2.04% [previously 2.16%] annual gain in August 2015.

Headline Reporting of Real Retail Sales. Based on today's (October 15th) reporting of a headline monthly contraction of 0.15% (-0.15%) in the seasonally-adjusted September CPI-U, and in the context of a headline contraction of 0.07% (-0.07%) in the August 2015 CPI-U, September real retail sales rose month-to-month by 0.26%, while August real retail sales rose by a revised 0.10% [previously up by 0.26%].

Where first-quarter 2015 real retail sales contracted at an annualized pace of 1.02% (-1.02%), and annualized growth for second-quarter 2015 was an unrevised 3.72%, third-quarter growth—based on initial full reporting—slowed somewhat to 3.17%, versus second-quarter growth.

Real Year-to-Year Growth Still Generated a Continuing Recession Signal. With seasonally-adjusted headline year-to-year CPI-U inflation down by 0.03% (-0.03%) in September 2015, and up by 0.22% in August 2015, year-to-year growth in September 2015 real retail sales was 2.38%, versus a revised August 2015 annual gain of 1.84% [previously up by 1.94%].

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, August dropped below the threshold again, with September back above it, the average level of real year-to-year growth for the last six months was 2.01%. 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.

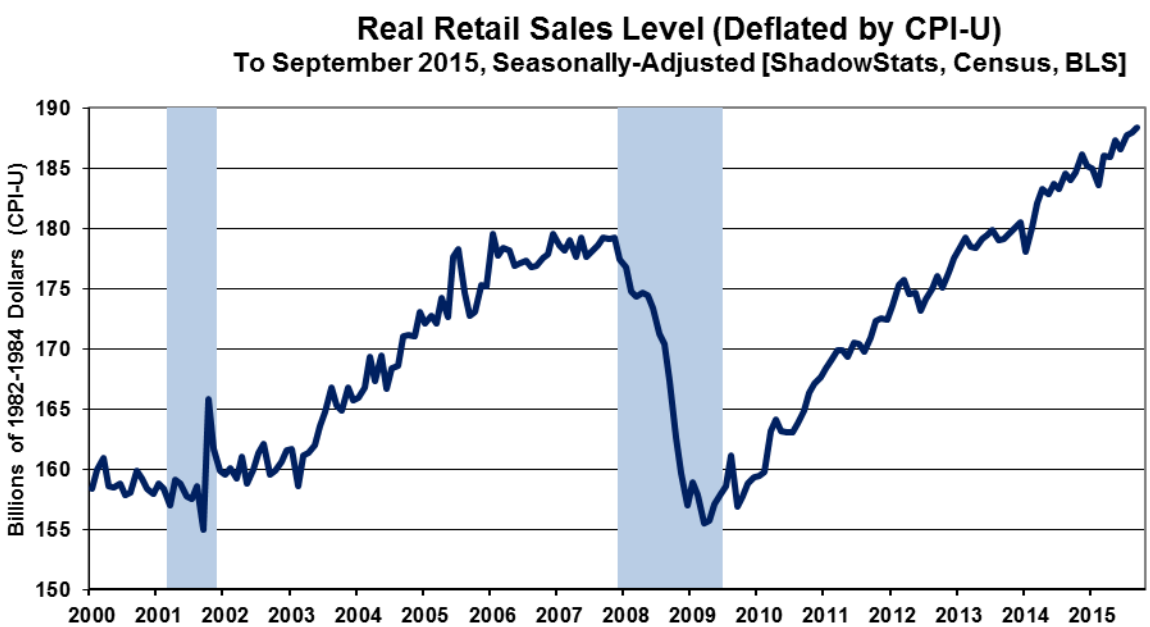
Discussed in yesterday's *Commentary No. 758*, the primary issues constraining headline retail sales activity remain intense, structural-liquidity woes besetting the consumer. That circumstance—in the last eight-plus years of economic collapse and stagnation—has continued to prevent a normal recovery 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 in real personal consumption.

As official consumer inflation resumes its upside climb 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 the real earnings difficulties discussed in the next section—these data should resume trending meaningfully lower, in what increasingly has started to gain recognition as a formal "new" or double-dip recession.

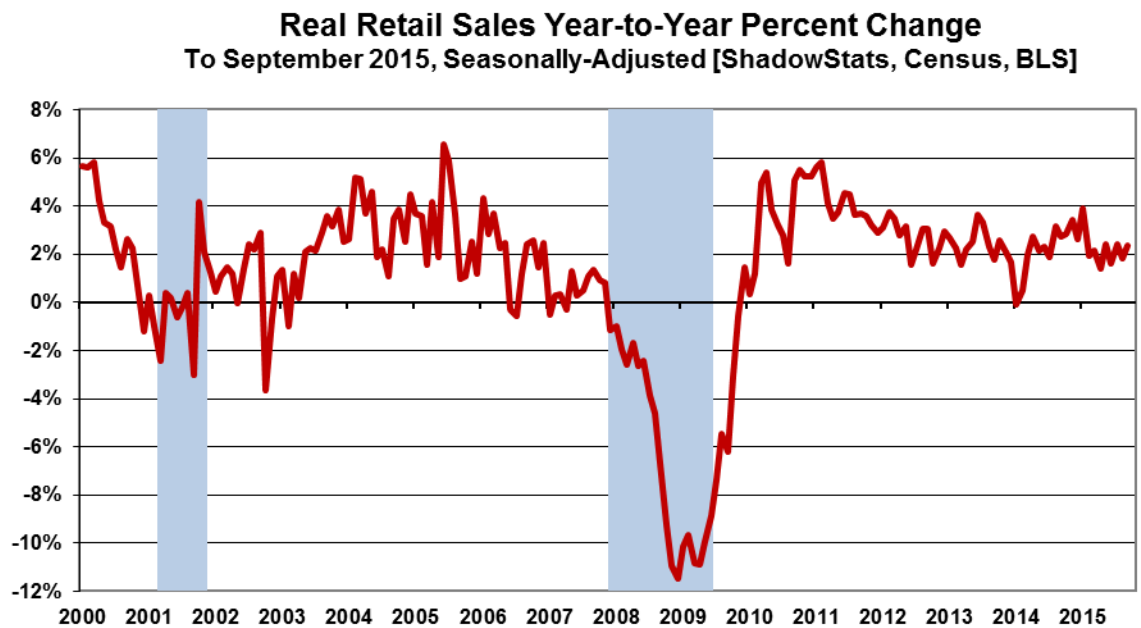
Real Retail Sales Graphs. *Graph 9*, the first of the four graphs following, shows the level of real retail sales activity (deflated by the CPI-U) since 2000; *Graph 10* shows the year-to-year percent change for the same period. The level of headline monthly activity turned lower for the third consecutive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

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. Yet, 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.

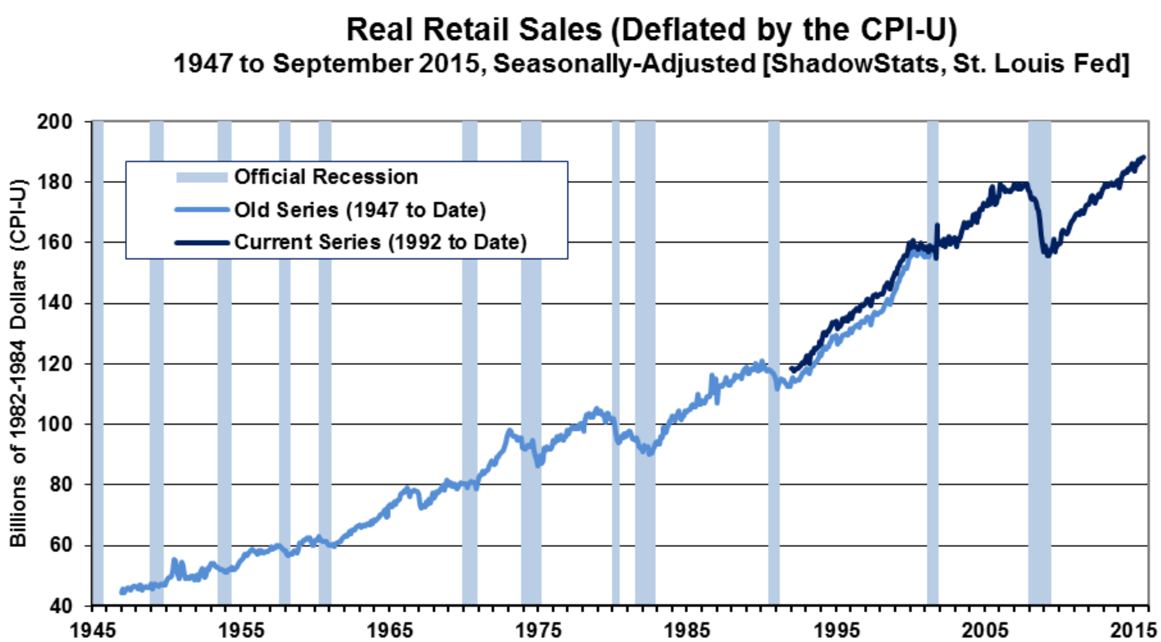
Graph 9: Real Retail Sales (2000 to 2015)



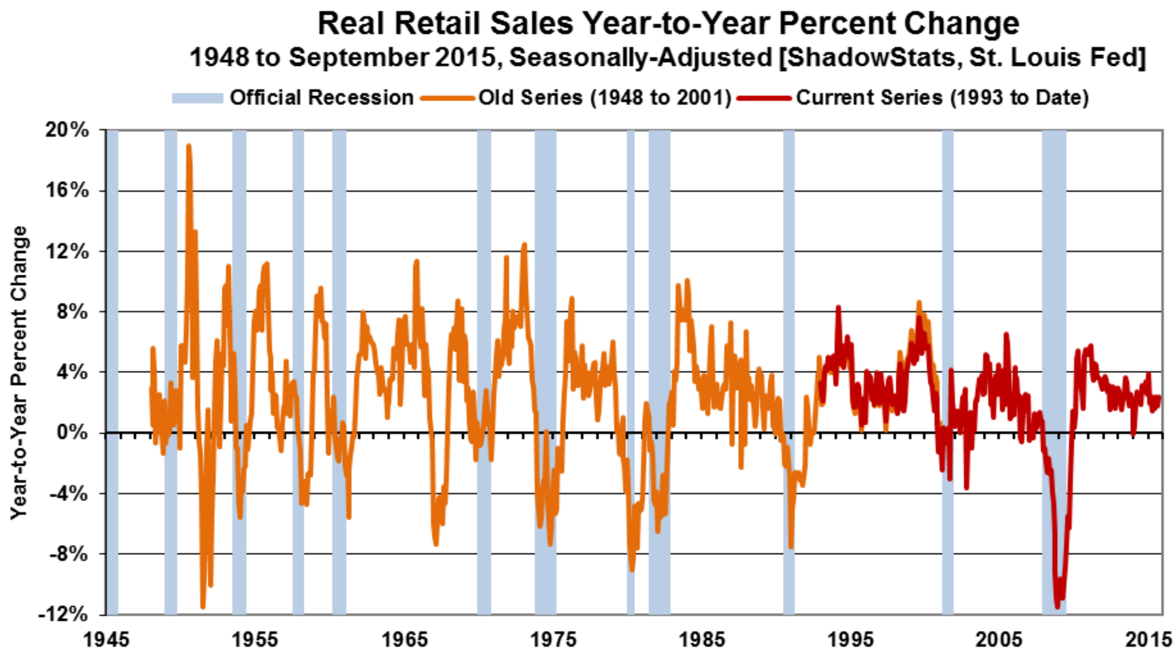
Graph 10: Real Retail Sales (2000 to 2015), Year-to-Year Percent Change



Graph 11: Real Retail Sales (1947 to 2015)



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



Irrespective of first-quarter 2015 reporting weakness, the apparent "recovery" in the real retail sales series (and other series such as industrial production and GDP) up through year-end 2014 was due largely to the understatement of the rate of inflation used in deflating retail sales and other series. As discussed more fully in *Chapter 9* of *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth.

As shown in the latest "corrected" real retail sales—*Graph 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.

Real (Inflation-Adjusted) Average Weekly Earnings—September 2015—Nominal and Real Average Earnings Fell in the Month. Per the Bureau of Labor Statistics (BLS), September 2015 headline average weekly earnings declined by 0.33% (-0.33%) in the month, for all employees on private nonfarm payrolls. A similar headline decline of 0.30% (-0.30%) was seen for those classified in the subcategory of production and nonsupervisory employees. The earnings decline was due primarily to declining work hours and was before adjusting for inflation.

The BLS uses different inflation measures for adjusting earnings, depending on the nature of the employee. All employees have their earnings deflated by the CPI-U, which dropped by 0.15% (-0.15%)

in September, which meant that their real average weekly earnings fell by 0.17% (-0.17%) in the month, with a rounding difference.

Enjoying the greater relative benefit of lower inflation, from the higher weighting of gasoline in the calculation of the CPI-W, production and nonsupervisory employees experienced a greater pace of deflation in September (as did Social Security COLA recipients), along with relatively stronger, though still-negative real earnings. Per the BLS, the headline CPI-W declined by 0.28% (-0.28%) for the month, which meant that real average weekly earnings for production and nonsupervisory employees declined by 0.01% (-0.01%), again with a rounding difference.

Production and Nonsupervisory Employees. In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings in September, again, were boosted by negative CPI-W inflation of 0.28% to a decline of 0.01% (-0.01%). That followed a revised real headline gain of 0.39% [previously up by 0.35%] in August earnings and an unrevised gain of 0.06% in July. The September detail and August revision reflected the usual surveying and seasonal-factor instabilities common to BLS reporting.

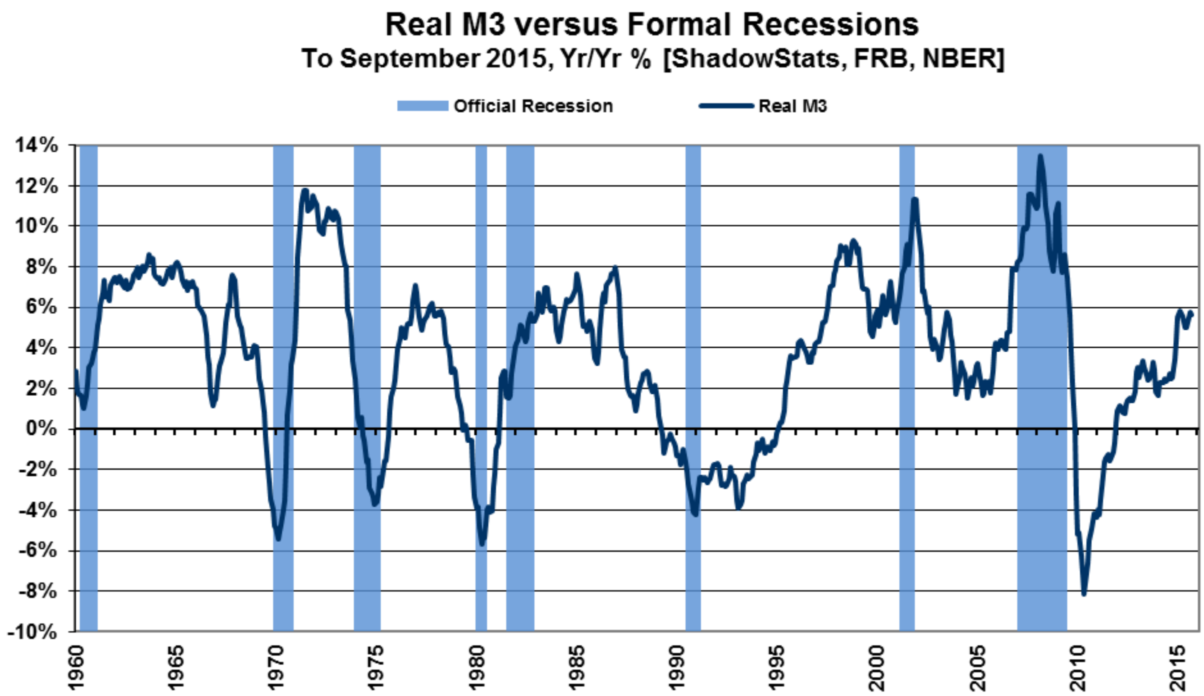
Quarterly Changes. Second-quarter 2015 real earnings showed an unrevised annualized contraction of 2.22% (-2.22%), versus a 6.22% annualized quarterly gain in first-quarter 2015. Based on initial full reporting for third-quarter 2015, annualized quarterly growth was 0.97%.

Annual Change. Year-to-year and seasonally-adjusted, September 2015 real average weekly earnings rose by 2.28%, versus a revised annual gain of 2.19% [previously up by 2.14%] in August 2015 and an unrevised 2.15% [initially up by 2.10%] gain in July 2015. Unadjusted, year-to-year change was 2.62% in September 2015, versus a revised 3.69% [previously 3.59%] in August 2015 and an unrevised 2.26% [initially 2.22%] in July 2015. Both the monthly and annual fluctuations in this series are irregular, but current reporting remains well within the normal bounds of volatility, with the occasional exception of unusual patterns resulting from negative inflation, depressed by falling gasoline prices.

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 the *Opening Comments* and *Public Commentary on Inflation Measurement* for further detail.

Real (Inflation-Adjusted) Money Supply M3—September 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 September 2015 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for September 2015 annual growth held at 5.7%, versus a downwardly revised 5.7% (previously 5.9%) in August 2015. The downside revision to August reflected recent irregular benchmark revisions by the Fed. The unchanged month-to-month levels reflected offsetting negative swings in annual CPI-U inflation and in annual M3 growth (see *Commentary No. 756*).

Graph 13: Real M3 Annual Growth versus Formal Recessions



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*).

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 *Hyperinflation Outlook Summary*). 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*.

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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, 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 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 still somewhat higher in August, despite a headline monthly decline in gasoline prices and a minimal decline in the headline monthly CPI-U. Although gasoline prices appear to be in the process of bottoming out again, the sharp decline in September gasoline prices was enough, to pull the annual CPI-U inflation slightly negative, year-to-year.

Upside inflation pressures should mount anew, once oil prices begin to rebound meaningfully. Again, that process eventually should accelerate, along with a pending sharp downturn in the exchange-rate value of the U.S. dollar. Those 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:

Index of Industrial Production (September 2015). Tomorrow, Friday, October 16th, the Federal Reserve Board will release its estimate of the Index of Industrial Production for September 2015. While market expectations for a monthly contraction appear to be around 0.3% (-0.3%), the headline reporting detail remains a good bet to come in below consensus, along with downside revisions to prior-period reporting.

As one of the traditional markers of the onset of formal recession, a continued downtrend in these numbers should intensify the shift in consensus expectations towards renewed economic contraction, again, including a downgrading of the still-positive but rapidly-softening expectations for the initial estimate of third-quarter 2015 GDP on October 29th.

Residential Construction—Housing Starts (September2015). The Census Bureau will release September 2015 residential construction detail on Tuesday, October 20th. In line with common-reporting experience of recent years, monthly results are likely to be unstable and not statistically meaningful, holding in a general pattern of down-trending stagnation. Wherever consensus expectations settle, they also likely will not be statistically significant.

Irrespective of the generally meaningless headline detail, the broad pattern of housing starts should remain consistent with the low-level, albeit slightly up-trending, stagnation, seen in the series at present, where current activity still is down by about 50% from its pre-recession high. Such is particularly evident with the detail viewed in the context of a six-month moving average. 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 frequently extreme, but also those headline monthly growth rates rarely come close to being statistically significant.

