

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

COMMENTARY NUMBER 767
October CPI, Real Retail Sales and Earnings, Industrial Production
November 17, 2015

**Both October Industrial Production and Real Retail Sales
Indicated Fourth-Quarter Contractions**

**Headline Monthly Activity Fell by 0.2% (-0.2%) for
Both Production and Real Retail Sales**

**Annual Growth in Both Production and Retail Sales
Fell Deeper into Recession Territory**

**Monthly Real Average Weekly Earnings Rose in October,
Despite Inflation Uptick**

October Annual Inflation: 0.2% (CPI-U), -0.4% (CPI-W), 7.8% (ShadowStats)

**Intensifying Weakness in U.S. Economy Should Take Financial-Market Dominance,
Pushing Aside Concerns for Global Political Turmoil and U.S. Fed Machinations**

PLEASE NOTE: The next regular Commentary, scheduled for tomorrow, Wednesday, November 18th, will cover October Housing Starts and review the current economic outlook.

Best wishes to all! — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

No Good News Here for the U.S. Economy. Today's (November 17th) headline detail on October 2015 industrial production and real retail sales continued to signal a developing recession, as seen in terms of monthly, quarterly and annual activity. With tomorrow's release on October Housing Starts, *Commentary No. 768* of November 18th will review the major economic releases for October along with assessments as to related headline GDP impact, any shifting economic sentiment in the financial markets, and any shifting sentiment on FOMC activity, etc.

Discussed in the *Gold Graphs* section of the *Hyperinflation Watch*, broad market recognition of the unfolding recession should gain rapidly now, along with related negative reaction in the currency markets for the U.S. dollar. Again, all this will be expanded upon in tomorrow's missive.

Today's Commentary (November 17th). The balance of these *Opening Comments* and today's *Commentary* provides summary coverage of the headline October Consumer Price Index (CPI), the related inflation-adjusted measures of real Retail Sales and Earnings, and October Industrial Production.

With the U.S. dollar having spiked sharply in recent days, partially in response to the terrorist attacks in Paris, the *Hyperinflation Watch* updates the gold graphs and the related U.S. dollar discussion, which usually accompany the monthly CPI *Commentary*. The *Hyperinflation Outlook Summary* has not changed since its November 4th revisions.

The *Week Ahead* provides an updated assessment of tomorrow's reporting of the October Housing Starts.

Consumer Price Index (CPI)—October 2015—Headline Inflation Begins to Rebound. With gasoline prices relatively flat, and with seasonal adjustments favoring the energy sector for October and November, headline consumer inflation detail has bounced back minimally, despite recent strength in the U.S. dollar and ongoing manipulations by the Federal Reserve and other central banks. Annual CPI-U inflation likely will jump to near a twelve-month high in November (see the *Reporting Detail* section). Discussed in the *Gold Graphs* section of the *Hyperinflation Watch*, mounting, broad-market acceptance of an unfolding deep and intractable U.S. recession should impact the global demand for holding U.S. dollars, both rapidly and negatively. As dollar selling intensifies, so too should headline U.S. consumer inflation.

Separately, although the pace of annual CPI-U inflation rose to 0.2% in October, year-to-year inflation is not and has not been quite as soft as indicated by the headline reporting, when considered in the context of traditional CPI reporting and common experience. The ShadowStats Alternate Inflation Measures rose to 3.8% annual inflation in October, based on 1990 methodologies, and to 7.8% annual inflation in October, based on 1980 methodologies (*Reporting Detail*).

CPI-U. The headline, seasonally-adjusted October 2015 CPI-U rose month-to-month by 0.20%. That followed a headline month-to-month decline September 2015 of 0.15% (-0.15%). The headline month-to-month October gain generally was in line with market expectations.

The seasonally-adjusted headline inflation number was boosted by seasonal factors, particularly those related to energy and gasoline. On a not-seasonally-adjusted basis, the October 2015 CPI-U was down by 0.05% (-0.05%) month-to-month, following an unadjusted decline of 0.16% (-0.16%) in September.

Encompassed by the seasonally-adjusted gain of 0.20% in the October 2015 CPI-U [down by an unadjusted 0.05% (-0.05%)], aggregate October energy inflation rose by a seasonally-adjusted 0.29% for the month [down by an unadjusted 3.54% (-3.54%)]. In the other major CPI sectors, adjusted October food inflation rose by 0.14% [up by 0.17% unadjusted], while adjusted “core” inflation rose by 0.20% [up by 0.26% unadjusted] for the month. Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 1.91% in October 2015, versus 1.89% in September 2015.

Not seasonally adjusted, October 2015 year-to-year inflation for the CPI-U was up by 0.17%. That followed headline annual decline in inflation for the September 2015 CPI-U, down by 0.04% (-0.04%).

CPI-W. The October 2015 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose month-to-month by 0.19%, versus an unadjusted decline of 0.12% (-0.12%). That followed an adjusted September decline of 0.29% (-0.29%), which was down by an unadjusted 0.30% (-0.30%) for the month.

Unadjusted, October 2015 year-to-year CPI-W inflation fell by 0.37% (-0.37%), versus an annual contraction of 0.64% (-0.64%) in September 2015.

Chained-CPI-U. Headline year-to-year inflation for the unadjusted October 2015 C-CPI-U fell by 0.17% (-0.17%), versus a revised year-to-year contraction of 0.30% (-0.30%) [previously down at annual pace of 0.45% (-0.45%) in September.

The initial reporting of for the October 2015 C-CPI-U was made in the context of revisions to the series that finalized reporting for fourth-quarter 2014, and that revised subsequent headline detail through September 2015. Annual inflation in this not-seasonally-adjusted series revised higher by 15 basis points (0.15%) for each month from December 2014 on. October and November 2014 annual inflation reporting respectively revised higher by 6 and 11 basis points. Those revisions narrowed the hoped-for a “reduction” in the headline CPI inflation rate, from what had been expected by politicians looking the for the fully-substitution-based C-CPI-U to replace the current bastardized version of the CPI-U.

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

Real Retail Sales—October 2015—Intensified Recession Signal; Suggestion of Fourth-Quarter Contraction; Monthly Contraction of 0.2% (-0.2%). Not adjusted for inflation, headline nominal retail sales rose by 0.05% in October 2015, following a downwardly-revised contraction of 0.02% (-0.02%) in

September 2015, as detailed in [Commentary No. 766](#) of November 13th. Year-to-year October 2015 nominal retail sales growth slowed to 1.69%, following a downwardly revised annual gain in September 2015 of 2.20%.

Headline Reporting of Real Retail Sales. Based on headline monthly gain of 0.20% in the seasonally-adjusted October 2015 CPI-U, and in the context of a headline contraction of 0.15% (-0.15%) in the seasonally-adjusted September CPI-U, October 2015 real retail sales fell month-to-month by a headline 0.2% (-0.2%) [down by 0.15% (-0.15%) at the second decimal point], while September real retail sales rose by a downwardly revised 0.1% (0.13% at the second decimal point).

First-quarter 2015 real retail sales contracted at a revised annualized pace of 1.21% (-1.21%), with unrevised annualized second-quarter 2015 growth at 3.72%, revised third-quarter growth at 2.94%, and—based on reporting for just October—an initial indication for fourth-quarter 2015 of an annualized contraction of 0.15% (-0.15%).

Real Year-to-Year Growth Still Generated a Deepening Recession Signal. With seasonally-adjusted headline year-to-year CPI-U inflation up by 0.17% in October 2015, and down by 0.03% (-0.03%) in September 2015, year-to-year growth in October 2015 real retail sales was 1.57%, versus a revised 2.22% in September 2015.

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, and now again in October. Year-to-year real change here was 1.60% for third-quarter 2015. Current reporting remains consistent with a signal of imminent recession. *Graphs 10 and 12 (Reporting Detail section)* show the latest patterns of headline annual real growth in retail sales.

Discussed in [Commentary No. 766](#), 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 retail sales or 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 is gaining recognition as a formal “new” or double-dip recession.

Real Retail Sales Graphs. Again, found in the *Reporting Detail* section, *Graph 12* shows the level of real retail sales activity (deflated by the CPI-U) since 2000; *Graph 13* shows the year-to-year percent change for the same period. The level of headline monthly activity turned lower in October, with recent headline gains dissipating in revision. Annual real growth has slowed markedly.

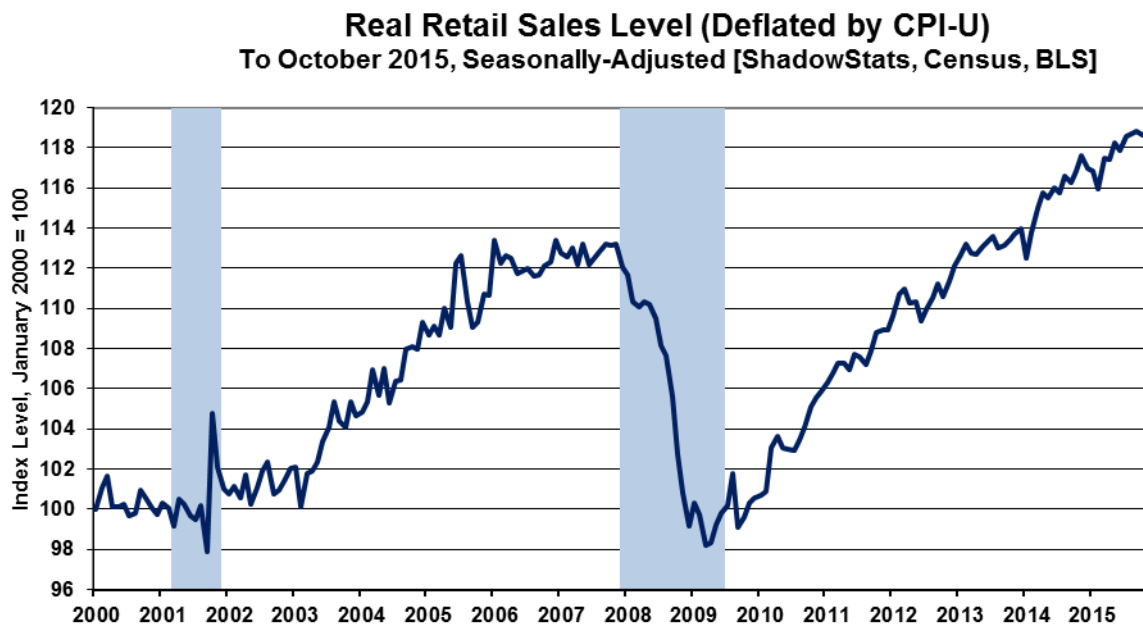
Year-to-year activity, which had plunged to a near-standstill in January and February 2014, had bounced back irregularly, hitting its recent high level in January 2015, spiked by negative inflation at the time. Yet, it fell back in February and has been fluctuating since, slowing sharply in October, and still

generating a traditional recession signal, discussed earlier. *Graphs 14* and *15* show the level of, and annual growth in, real retail sales (and its predecessor series) in full post-World War II detail.

Corrected Real Retail Sales—October. 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, turned higher into the third-quarter 2015 and down again into the fourth-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 12* of real retail sales in the *Reporting Detail* section.

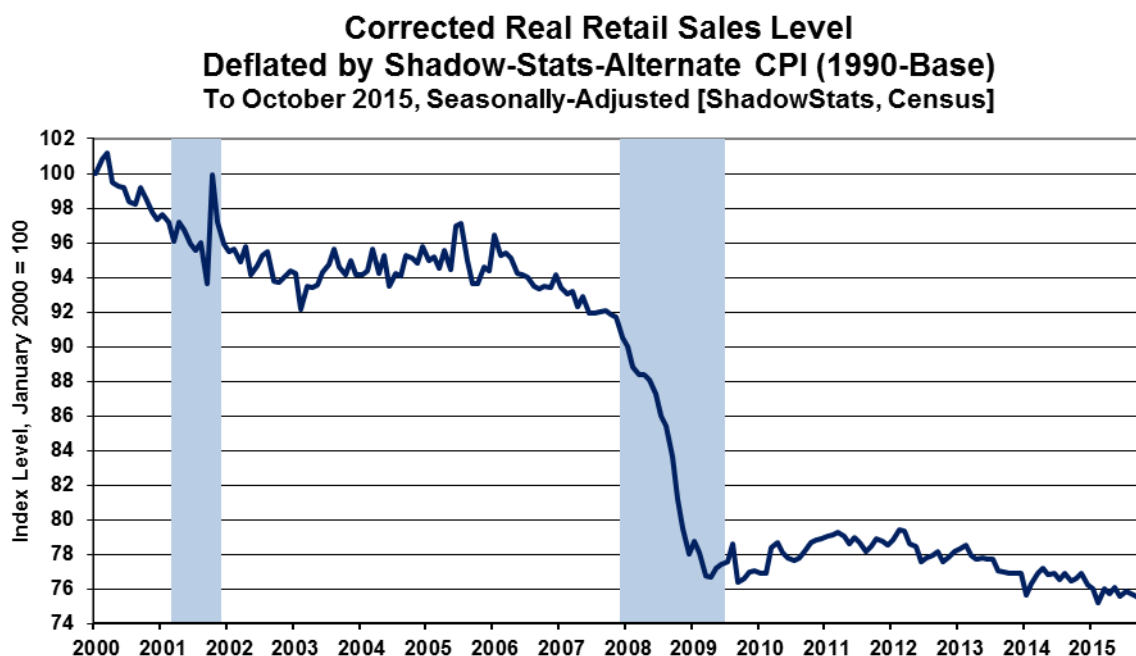
Graph 1: Headline Real Retail Sales Level, Indexed to January 2000 = 100



Instead of being deflated by the CPI-U, the “corrected” real retail sales numbers—in *Graph 2*—use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation. With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation and renewed downturn, consistent with patterns seen in consumer indicators like real average weekly earnings (see *Graph 3*), broad unemployment and in most housing statistics (see [Commentary No. 761](#)).

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 ten months of 2015, allowing for the occasional and temporary upside blips.

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



Real Earnings—October 2015—Real Earnings Rebounded in October, Despite Higher Inflation.

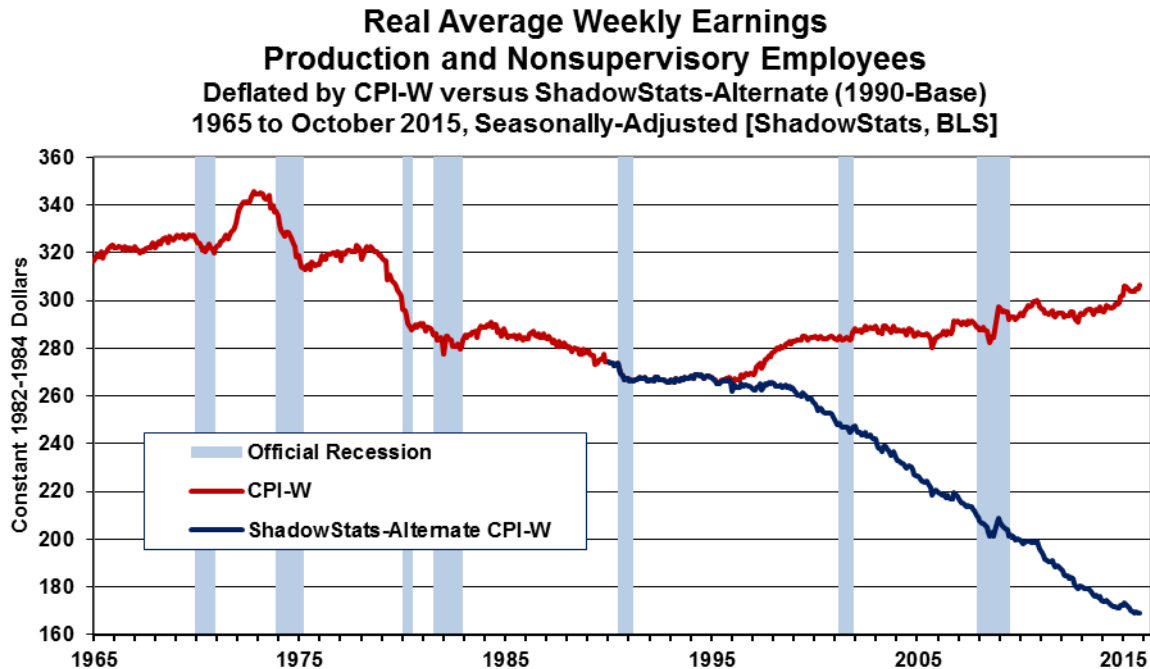
Coincident with the release of the October 2015 CPI-W, the BLS published its estimate for real average weekly earnings in October, for production and nonsupervisory employees. Headline CPI-W rose by 0.19% in October 2015, having declined by 0.28% (-0.28%) in September.

In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings in October rose by 0.54%, despite the higher inflation, thanks to an estimated gain of 0.3 hours worked per week, combined with a 0.4% gain in average hourly earnings, net of the CPI-W inflation. The change in real September earnings was boosted by negative CPI-W inflation of 0.28% (-0.28%), to an unrevised monthly decline of 0.01% (-0.01%). That followed an upwardly revised real headline gain of 0.44% in August earnings. The headline reporting here reflected the usual surveying and seasonal-factor instabilities common to BLS payroll survey reporting.

Year-to-year and seasonally-adjusted, October 2015 real average weekly earnings rose by 2.66%, versus a revised 2.32% in September 2015 and a revised 2.24% in August 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.

The following *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 [Public Commentary on Inflation Measurement](#) for further detail.

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



Index of Industrial Production—October 2015—Amidst Indications of a Quarterly Contraction, Deteriorating Annual and Contracting Monthly Growth Held Well Within Recession Territory.

With October 2015 industrial production reporting in hand, production continued to show deteriorating economic conditions, a deepening and intensifying recession. Monthly and annual activity patterns in October reporting—the first month of fourth-quarter 2015—not only continued to falter in a manner last seen coming into the economic collapse, but also they were fully consistent with an ongoing recession already in place. Shown in *Graphs 17* and *19* of the *Reporting Detail* section, annual growth in production has declined to a low level rarely seen other than at the onset of or in formal recessions.

Intensifying Downturn in Quarterly and Annual Production Upon Entering Fourth-Quarter 2015.

First-quarter 2015 production contracted at an unrevised annualized quarterly pace of 0.35% (-0.35%), followed by a revised annualized contraction of 2.28% (-2.28%) in second-quarter 2015. Based on revised full reporting for third-quarter 2015, annualized quarterly growth revised higher to 2.62%.

That said, although headline third-quarter activity was spiked relative to second-quarter 2015, by an unusual surge in July and August automobile production, the revised level of aggregate third-quarter 2015 production now stands just 0.07% above the index level for first-quarter 2015 and just 0.02% (-0.02%) below the index level of fourth-quarter 2014.

Based solely on the headline reporting for October 2015, the early indication for fourth-quarter 2015 is an annualized quarterly contraction of 1.1% (-1.1%) in production activity. Such would be the third-quarterly contraction in the year. The headline October monthly production contraction was the eighth of the last ten months.

Separately, year-to-year growth in quarterly production continued to decline, from 4.47% in fourth-quarter 2014, to 3.47% in first-quarter 2015, to a revised 1.46% in second-quarter 2015, to a an upwardly revised, but still post-economic-collapse low of 1.14% in third-quarter 2015. Such a pattern of slowing annual growth has not been seen since first-quarter 2008, the official onset the economic collapse. The initial indication for fourth-quarter 2015 production activity is for a headline year-to-year decline in activity of 0.3% (-0.3%).

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

Headline Industrial Production—October 2015. The first estimate of October 2015 industrial production contracted month-to-month, with a sharp slowing in annual growth. In the context of an upside revision to third-quarter activity—reflected in an upside revision of 0.27% in the level of September production—headline, seasonally-adjusted monthly activity declined by 0.15% in October 2015. That followed a revised decline of 0.21% (-0.21%) in September, a revised 0.09% gain in August, and a revised 0.78% gain in July.

An upside revision to the level of August activity accounted for the bulk of the boosted, headline second-quarter activity. As a result, net of prior-period revisions, the headline monthly October gain was 0.11%, close to market expectations. Yet, the revisions shifted weakening production activity into the present, with monthly activity dropping off sharply in September and October 2015, and with suggestions of quarterly and annual contractions in activity being imminent. If November 2015 production activity does not gain more than 0.5% month-to-month, relative to current headline October production, annual and quarterly contractions effectively will be locked in for fourth-quarter 2015.

Detailed in *Graphs 21 to 23 (Reporting Detail)* section) of major industry groups, the headline October 2015 aggregate monthly production loss of 0.2% (-0.2%) [a September contraction of 0.2% (-0.2%)] was composed of a gain of 0.4% in October manufacturing activity [a September decline of 0.1% (-0.1%)]; an October decline of 1.5% (-1.5%) in mining (including oil and gas production) [a September monthly decline of 2.4% (-2.4%)]; and an October decline of 1.5% (-1.5%) in utilities [a September gain of 1.2%].

Year-to-year, October 2015 growth softened to 0.34%, versus an upwardly-revised annual gain of 0.66% in September 2015, an upwardly-revised annual gain of 1.41% in August 2015, and an upwardly-revised gain of 1.35% in July 2015. Again, annual growth has fallen to low levels usually seen only at the onset of or during formal recessions.

Production Graphs—Corrected and Otherwise. Again, the regular graphs of headline production level and annual growth detail are found in the *Reporting Detail (Graphs 17 to 20)*, along with the drill-down

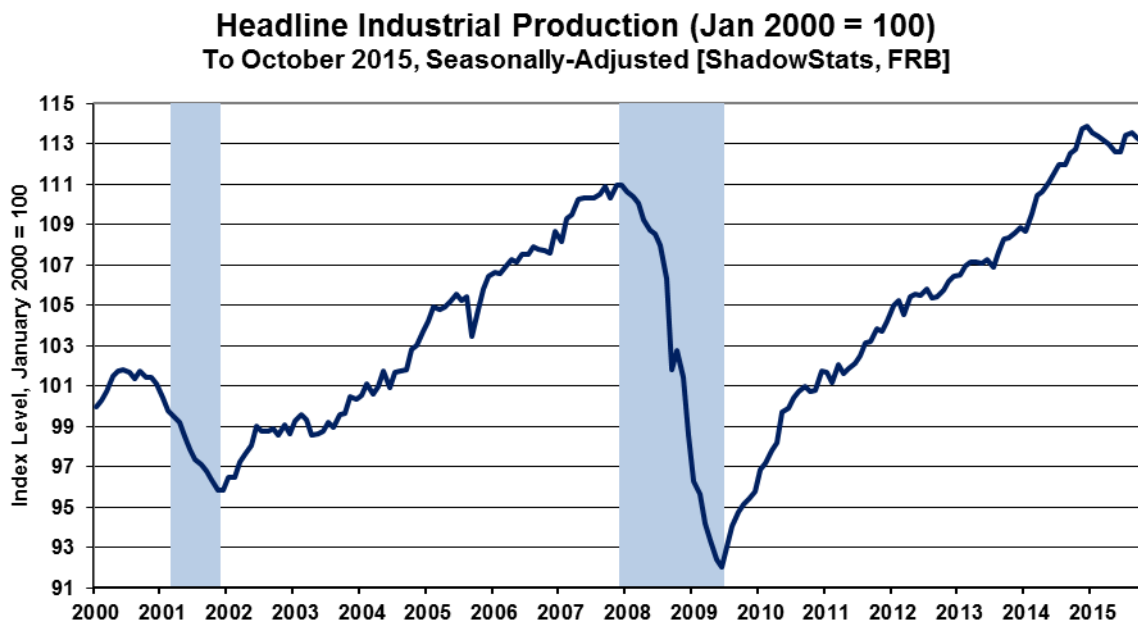
graphs of major subcomponents of the production series (*Graphs 21 to 28*). The level of headline production showed a topping-out process late in 2014, followed by a deepening downturn into first- and second-quarter 2015, with October 2015 reporting still well off recent-peak activity, despite a brief upturn in July and August activity. Such patterns of monthly and quarterly decline were seen last in the depths of the economic collapse from 2007 into 2009. Annual growth in October 2015 continued to slow sharply, to a level rarely seen outside of official recessions (see *Graphs 17 and 19*).

Graphs 4 and 5, 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](#)).

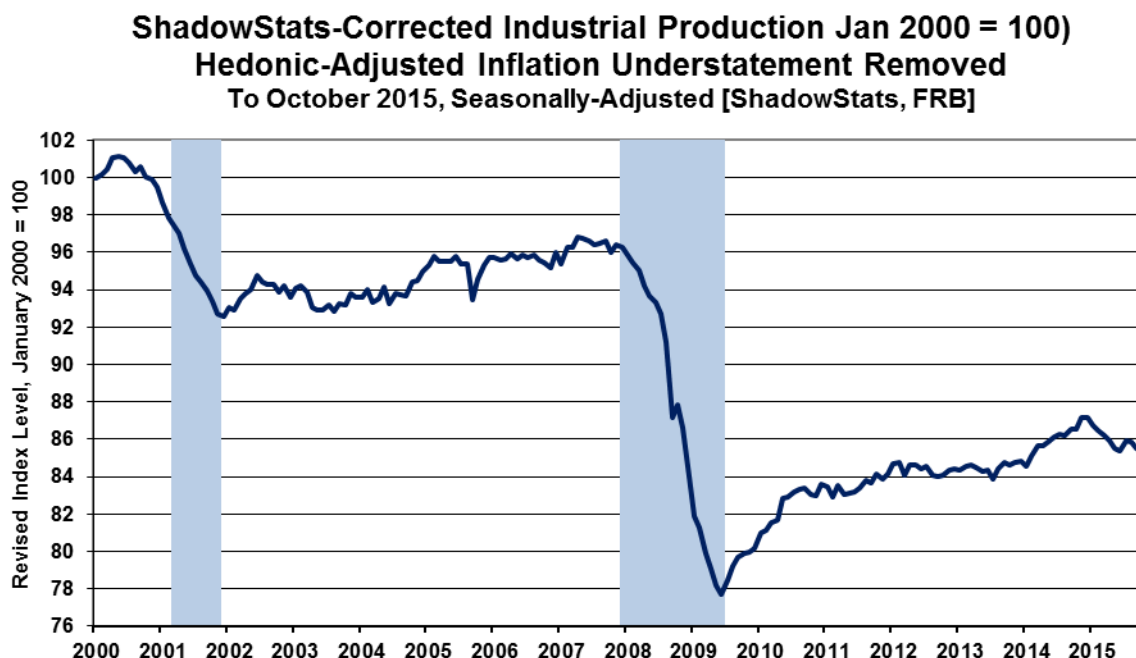
Graph 4 shows official, headline industrial production reporting, but indexed to January 2000 = 100, instead of the Fed’s formal index that is set at 2012 = 100. The 2000 indexing simply provides for some consistency in the series of revamped “corrected” graphics (including real retail sales, new orders 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 20* in the *Reporting Detail* section).

Graph 4: Indexed Headline Level of Industrial Production (Jan 2000 = 100)



Graph 5 is a recast version of *Graph 4*, 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 5: Headline ShadowStats-Corrected Level of Industrial Production (Jan 2000 = 100)



This “corrected” *Graph 5* shows some 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. 763](#)). 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 2015, through the latest reporting, despite a limited and short-lived activity spike in July and August 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 is a pattern of severe economic weakness last seen during the economic collapse. Despite the uptick in July and August production, growth was contracting anew going into October 2015.

***[The Reporting Detail section includes expanded material on the
 October CPI, Real Retail Sales and Income, and Industrial Production.]***

HYPERINFLATION WATCH

GOLD GRAPHS, TERRORIST ATTACKS, FOMC AND THE U.S. DOLLAR

Monthly Gold Graphs and Related Comments—Unfolding U.S. Economic Downturn Should Begin to Take an Increasing Toll on the U.S. Dollar and the Financial Markets. The monthly plot of the U.S. Dollar (*Graphs 6 and 7*) and the three gold graphs (*Graphs 8, 9 and 10*) that regularly accompany the *CPI Commentaries* follow. The “Latest November” points in the graphs reflect late-day New York prices for November 17th.

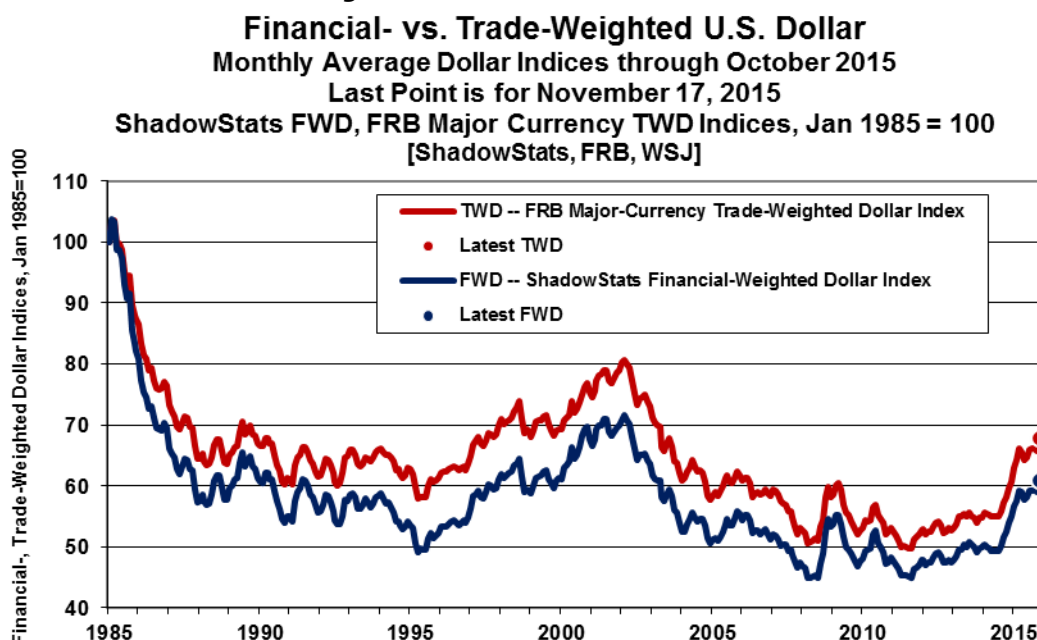
With the U.S. dollar already at or near recent highs, last week’s the terrorist attacks in Paris triggered a strong flight-to-safety in the dollar, particularly out of the euro, as reflected in *Graph 6*. Unexpected, violent disruptions to financial, economic, political or social systems, be they manmade or natural in their nature, indeed can and do have major impact on financial markets. Much of the Western world is vulnerable to terrorist actions, however, particularly the United States, and looming shocks to the U.S. system always remain in the near-background.

Increasingly coming into the foreground for the United States, however, is one of the stronger, negative fundamental factors that can hit the U.S. dollar and financial markets: a recession. Seen in the most-recent headline economic reporting, the U.S. economy continues to slow down, and the unfolding of a new and current recession appears at the brink of gaining rapid and broad recognition in the markets. This recession also should gain recognition rapidly as one that will not be remedied easily by the Federal Reserve or U.S. federal government.

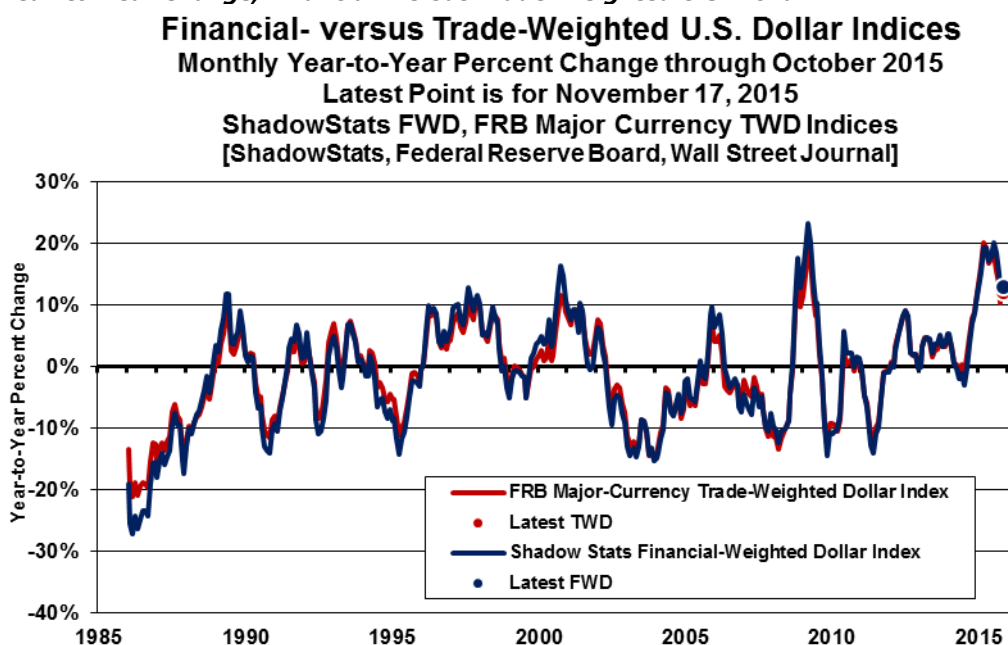
Exacerbated by whatever other concerns or shocks that could hit the markets, including what likely will be continued inaction, befuddlement and/or obvious impotency of the Federal Reserve Board and its Federal Open Market Committee (FOMC), global markets increasingly should shift away from the U.S. dollar in favor of other major currencies and precious metals. Nonetheless, a severe and intractable recession should dominate the impact of most other factors

Beyond some flight-to-the dollar, there also have been further recent machinations in terms of what appears to be covert, yet likely officially sanctioned—no formal investigations into—market interventions aimed at depressing the price of gold. These effects are reflected in *Graphs 8 to 10*. Once the U.S. recession breaks fully into the open, flight from the dollar should begin to mount meaningfully, with little that the U.S. Treasury or the Fed will be able to do. As heavy selling of the U.S. dollar gains broad-based momentum, offsetting sharp rallies should be seen, on a coincident basis, for gold and silver prices, as well as for oil prices.

Graph 6: Financial- versus Trade-Weighted U.S. Dollar



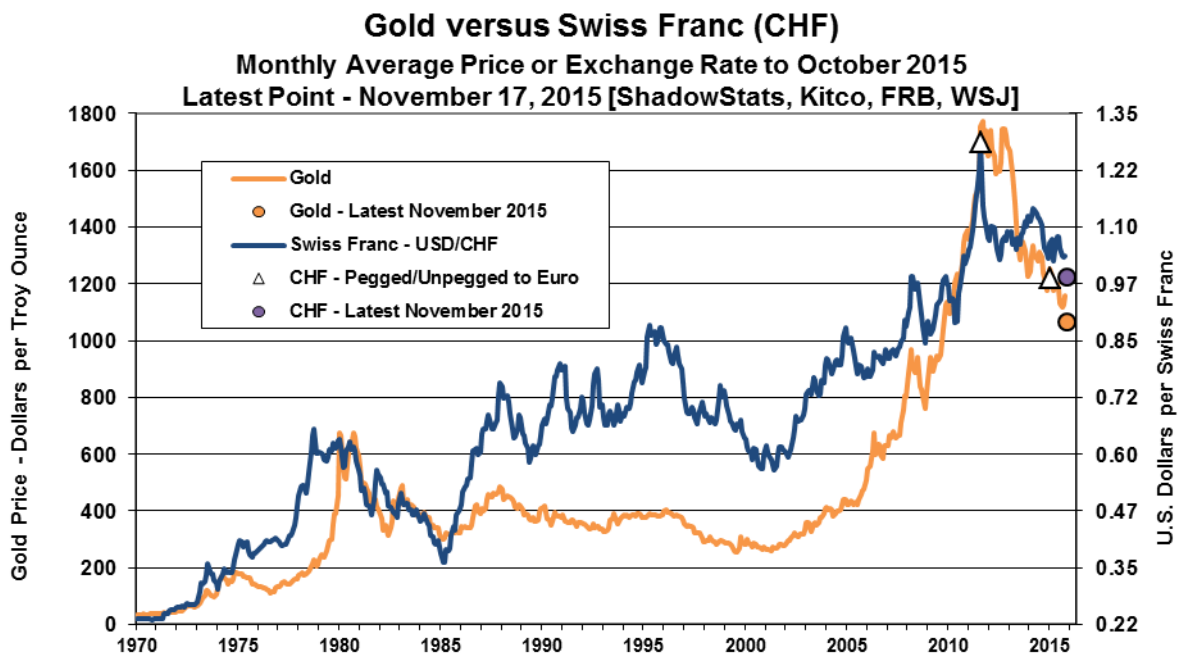
Graph 7: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar



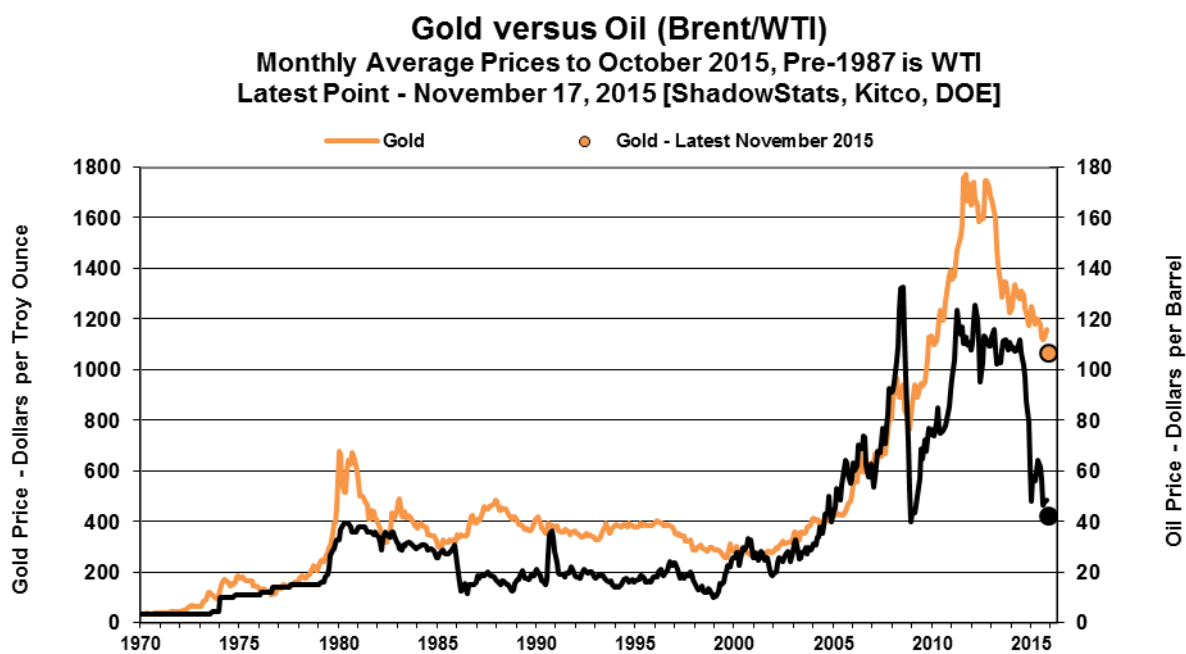
In summary, the dynamics of intensifying, negative shifts in global perceptions of U.S. economic activity and U.S. systemic stability rapidly should gain dominance in driving the U.S. currency and equity markets, irrespective of any U.S. Treasury or Federal Reserve activity, or lack of same. Continuing 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.

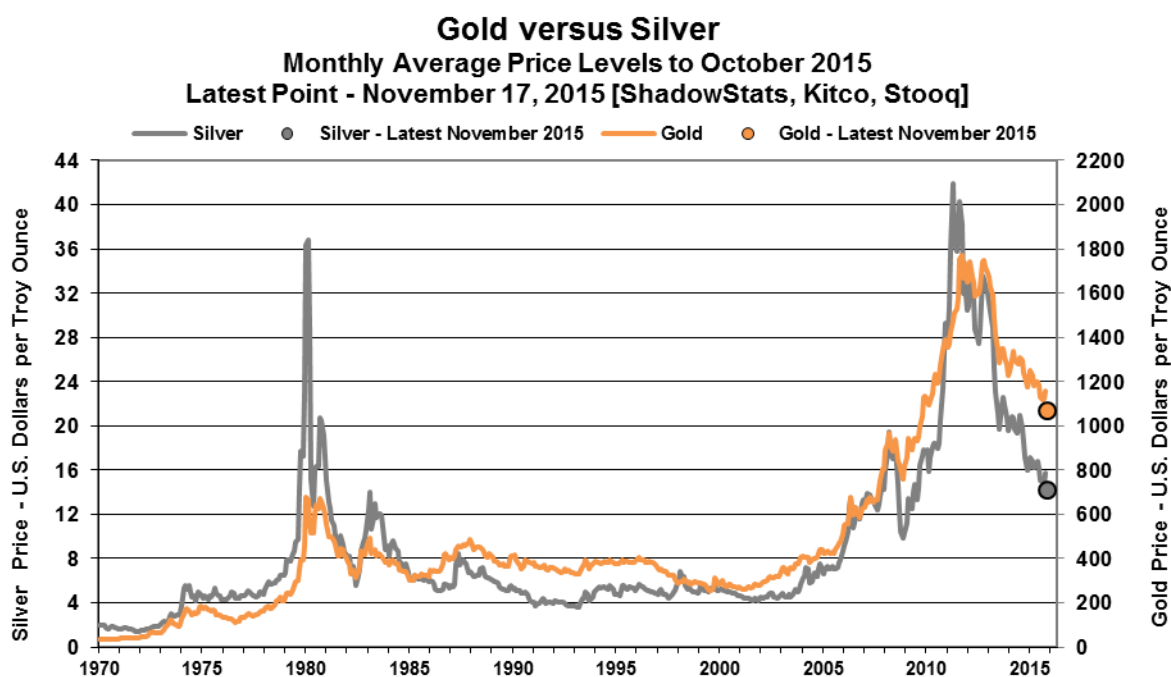
dollar in the year ahead, to the stronger Western currencies and precious metals, likely much sooner than later, and quite possibly with little advance warning. These various issues also have been discussed broadly recently in the August 10th [No. 742 Special Commentary: A World Increasingly Out of Balance](#), as well as in the regular weekly *Commentaries*.

Graph 8: Gold versus the Swiss Franc



Graph 9: Gold versus Oil



Graph 10: Gold versus Silver**HYPERINFLATION OUTLOOK SUMMARY (of November 4, 2015)**

U.S. Dollar Is Living on Borrowed Time. Other than for internal links and minor language corrections, this *Summary* last was updated on November 4th, covering recent developments with the Federal Reserve, with domestic political and fiscal conditions and with evolving economic conditions. There has been no fundamental shift in the broad outlook, just some general movement forward in variety of related areas. With future updates, new comments will be concentrated in the *Recent Developments* section. The prior *Hyperinflation Outlook Summary* is available in [Commentary No. 762](#).

Recent Developments. Discussed in [Commentary No. 763](#) of October 29th and [Commentary No. 764](#) of November 4th, where initial third-quarter GDP growth came in at 1.5%, slowing sharply from second-quarter activity of 3.9%, downside revisions now loom for the third-quarter number. In the context of an ongoing contraction in underlying economic reality, as seen for example with corporate revenues and industrial production, headline third-quarter GDP reporting likely will slow much further in its pending monthly revisions, accelerating the pace of broad market recognition of a “new” recession.

A widening trade deficit and slowing economic activity have significant negative implications, ranging from selling pressure on the U.S. dollar, to unexpected and additional widening of the federal budget deficit and U.S. Treasury funding needs, to increased political volatility in what already is shaping up as an extraordinarily-significant presidential election year.

When Main Street U.S.A. suffers enough financial and other pain, the common reaction, historically, has been to dump those running the system. That pain threshold was crossed some time ago, and the year

ahead assuredly will not be a happy one for many incumbents or for those who are counting on politics as usual.

That said, a heavily politics-as-usual new budget deal was just forced into place. With promised higher deficit spending, and with no debt limit to contain continuing excesses until after the election, who is going to fund the expanded spending ahead? Who is going to buy the proffered U.S. Treasury securities? Recent big buyers such as China, Japan and the Federal Reserve either are selling for a variety of reasons or otherwise are sitting on their hands.

The U.S. Dollar is living on borrowed time, and the confluence of the factors raised here remains likely to push the U.S. dollar into a heavy sell-off.

Discussed in [Commentary No. 763](#) and [Commentary No. 765](#), the weak economy continues as political cover for the Federal Reserve and for continued FOMC inaction, masking serious other problems in the domestic and global financial systems. One likely major concern has to be for continued stability and liquidity of the market for U.S. Treasury securities. Beyond domestic and global banks, the biggest beneficiary of QE3 was the U.S. Treasury.

As previously noted, if the FOMC were to keep holding back on its rate increase until after the economy improved, the wait for a rate hike would be quite protracted. From a practical standpoint, meaningful FOMC action still appears to be on hold until after the 2016 presidential election. In the event of any funding issues for the Treasury, however, flailing domestic economic activity still will be able to provide cover for expanded quantitative easing, and for the Fed resuming its role as buyer of last resort of an increasingly unwanted supply of U.S. Treasury securities.

Of such circumstances are currency crises created.

Nothing has changed here, including the ShadowStats broad outlook for ongoing economic stagnation and downturn, intensifying systemic instabilities and a looming massive decline in the U.S. dollar. Along with the pending dollar crisis are the ongoing implications ultimately for severe inflation, for a domestic hyperinflation.

Background Documents to this Summary. Underlying this *Summary* as general background 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 weekly *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 continues to face a massive decline in the wake of the 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, including possible Treasury-funding issues, likely are behind the

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.

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, not as stimuli for the economy. Instead, the weak economy regularly was used as political cover for the effective banking-system bailouts (see for example, the *Monetary Conditions* section in [Commentary No. 765](#)).

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 and September, there was some temporary easing of the dollar's strength in October (see [Commentary No. 759](#)). 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 once again, 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), or now by the end of the year. Coincident, with these events, ongoing and 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. 763](#)), 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. Again, 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.

Continued inaction by the FOMC is 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 or other systemic-liquidity 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. 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 for, 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. 764](#)). Sharply-negative economic reporting shocks, versus softening consensus forecasts, 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, with the White House and Congress recently having placed any official solvency concerns on hold until after the November 2016 election. What remains to be seen is for how long the concerns of the global financial markets will remain on hold.

- ***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 handling the hyperinflation crisis and [No. 742](#), for other factors afoot in the current environment.

REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (October 2015)

Headline CPI-U Inflation Begins to Rebound. *[These first two paragraphs largely are repeated from the Open Comments section.]* With gasoline prices relatively flat, and with seasonal adjustments favoring the energy sector for October and November, headline consumer inflation detail has bounced back minimally, despite recent strength in the U.S. dollar and ongoing manipulations by the Federal Reserve and other central banks. Annual CPI-U inflation likely will jump to near a twelve-month high in November. Discussed in the *Gold Graphs* section of the *Hyperinflation Watch*, mounting, broad-market acceptance of seriously contracting domestic economic activity should impact the global demand for U.S. dollars rapidly and negatively. As dollar selling intensifies, so too will headline U.S. consumer inflation.

Separately, although the pace of annual CPI-U inflation in October rose to 0.2%, 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 rose to 3.8% annual inflation in October, based on 1990 methodologies, and to 7.8% annual inflation in October, based on 1980 methodologies.

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.

Notes on Different Measures of the Consumer Price Index

The Consumer Price Index (CPI) is the broadest inflation measure published by the U.S. Government, through the Bureau of Labor Statistics (BLS), Department of Labor:

*The **CPI-U (Consumer Price Index for All Urban Consumers)** is the monthly headline inflation number (seasonally adjusted) and is the broadest in its coverage, representing the buying patterns of all urban consumers. Its standard measure is not seasonally-adjusted, and it never is revised on that basis except for outright errors.*

*The **CPI-W (CPI for Urban Wage Earners and Clerical Workers)** covers the more-narrow universe of urban wage earners and clerical workers and is used in determining cost of living adjustments in government programs such as Social Security. Otherwise, its background is the same as the CPI-U.*

*The **C-CPI-U (Chain-Weighted CPI-U)** is an experimental measure, where the weighting of components is fully substitution based. It generally shows lower annual inflation rate than the CPI-U and CPI-W. The latter two measures once had fixed weightings—so as to measure the cost of living of maintaining a constant standard of living—but now are quasi-substitution-based. Since it is fully substitution based, the series tends to reflect lower inflation than the other CPI measures. Accordingly, the C-CPI-U is the “new inflation” measure being proffered by Congress and the White House as a tool for reducing Social Security cost-of-living adjustments by stealth. Moving to accommodate the Congress, the BLS introduced changes to the C-CPI-U estimation process with the February 26, 2015 reporting of January 2015 inflation, aimed at finalizing the C-CPI-U estimates on a more-timely basis, and enhancing its ability to produce lower headline inflation than the traditional CPI-U.*

*The **ShadowStats Alternative CPI-U Measures** are attempts at adjusting reported CPI-U inflation for the impact of methodological change of recent decades designed to move the concept of the CPI away from being a measure of the cost of living needed to maintain a constant standard of living. There are two measures, where the first is based on reporting methodologies in place as of 1980, and the second is based on reporting methodologies in place as of 1990.*

CPI-U. The Bureau of Labor Statistics (BLS) reported this morning, November 17th, that headline, seasonally-adjusted October 2015 CPI-U rose month-to-month by 0.2%, a gain of 0.20% at the second decimal point. That followed a headline month-to-month September 2015 decline of 0.2% (-0.2%), which was a drop of 0.15% (-0.15%) at the second decimal point. The headline month-to-month October gain generally was in line with market expectations.

The seasonally-adjusted headline inflation number was boosted by seasonal factors, particularly those related to energy and gasoline. On a not-seasonally-adjusted basis, the October 2015 CPI-U was down by 0.05% (-0.05%) month-to-month, following an unadjusted decline of 0.16% (-0.16%) in September.

Monthly gasoline-inflation seasonal adjustments were positive for October 2015, turning an unadjusted headline monthly decline of 3.94% (3.94%) to a headline gain of 0.43%. A headline, unadjusted monthly decline of 3.05% had been estimated by the Department of Energy (DOE).

Major CPI-U Groups. Encompassed by the seasonally-adjusted gain of 0.20% in the October 2015 CPI-U [down by an unadjusted 0.05% (-0.05%)], aggregate October energy inflation rose by a seasonally-adjusted 0.29% for the month [down by an unadjusted 3.54% (-3.54%)]. In the other major CPI sectors, adjusted October food inflation rose by 0.14% [up by 0.17% unadjusted], while adjusted “core” inflation rose by 0.20% [up by 0.26% unadjusted] for the month. Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 1.91% in October 2015, versus 1.89% in September 2015.

Year-to-Year CPI-U. Not seasonally adjusted, October 2015 year-to-year inflation for the CPI-U was up by 0.2% at the first decimal point, up by 0.17% at the second decimal point. That followed headline annual “unchanged” inflation for the September 2015 CPI-U at 0.0% at the first decimal point, down by 0.04% (-0.04%) at the second decimal point.

Year-to-year, CPI-U inflation would increase or decrease in next month’s November 2015 reporting, dependent on the seasonally-adjusted monthly change, versus the adjusted, headline contraction of gain of 0.29% (-0.29%) in November 2014 CPI-U. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for November 2015, the difference in November’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the October 2015 annual inflation rate of 0.17%. For example, a seasonally headline monthly gain of 0.1% in November 2015 CPI-U would push annual November 2015 inflation up into the positive 0.5% to 0.6% range. Such would be the highest, headline CPI-U headline inflation rate since 0.76% in December 2014.

CPI-W. The October 2015 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose month-to-month by 0.19%, versus an unadjusted decline of 0.12% (-0.12%). That followed an adjusted September decline of 0.29% (-0.29%), which was down by an unadjusted 0.30% (-0.30%) for the month.

Year-to-Year CPI-W. Unadjusted, October 2015 year-to-year CPI-W inflation fell by 0.37% (-0.37%), versus an annual contraction of 0.64% (-0.64%) in September 2015.

Chained-CPI-U. Headline year-to-year inflation for the unadjusted October 2015 C-CPI-U fell by 0.17% (-0.17%), versus a revised year-to-year contraction of 0.30% (-0.30%) [previously down at annual pace of 0.45% (-0.45%) in September.

The initial reporting of for the October 2015 C-CPI-U was made in the context of revisions to the series that finalized reporting for fourth-quarter 2014, and that revised subsequent headline detail through September 2015. Annual inflation in this not-seasonally-adjusted series revised higher by 15 basis points (0.15%) for each month from December 2014 on. October and November 2014 annual inflation reporting respectively revised higher by 6 and 11 basis points. Those revisions narrowed the hoped-for a

“reduction” in the headline CPI inflation rate, from what had been expected by politicians looking the for the fully-substitution-based C-CPI-U to replace the current bastardized version of the CPI-U.

See 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, as discussed in the [Public Commentary on Inflation Measurement](#).

Alternate Consumer Inflation Measures. Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 3.8% in October 2015, versus 3.5% in September 2015. The October 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 7.8% (7.77% for those using a second decimal point) year-to-year, versus 7.6% in September 2015.

Note: The ShadowStats-Alternate Consumer Inflation Measures largely have been reverse-engineered from the components of the BLS's CPI-U-RS series. That series provides an official estimate of historical inflation, assuming that all current methodologies were in place going back in time. The changes reflected there are parallel with and of the same magnitude of change as estimated by the BLS, when a given methodology was changed. The ShadowStats estimates are adjusted on an additive basis for the cumulative impact on the annual inflation rate from the various BLS changes in methodology (reversing the net aggregate inflation reductions by the BLS). The series are adjusted by ShadowStats for those aggregate changes, but the series otherwise are not recalculated.

Over the decades, the BLS has altered the meaning of the CPI from being a measure of the cost of living needed to maintain a constant standard of living, to something that neither reflects the constant-standard-of-living concept nor measures adequately what most consumers view as out-of-pocket expenditures. Roughly five percentage points of the additive ShadowStats adjustment since 1980 reflect the BLS's formal estimate of the annual impact of methodological changes; roughly two percentage points reflect changes by the BLS, where ShadowStats has estimated the impact not otherwise published by the BLS. For example, the BLS does not consider more-frequent weightings of the CPI series to be a change in methodology. Yet that change has had the effect of reducing headline inflation from what it would have been otherwise (See [Public Commentary on Inflation Measurement](#) for further details.)

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

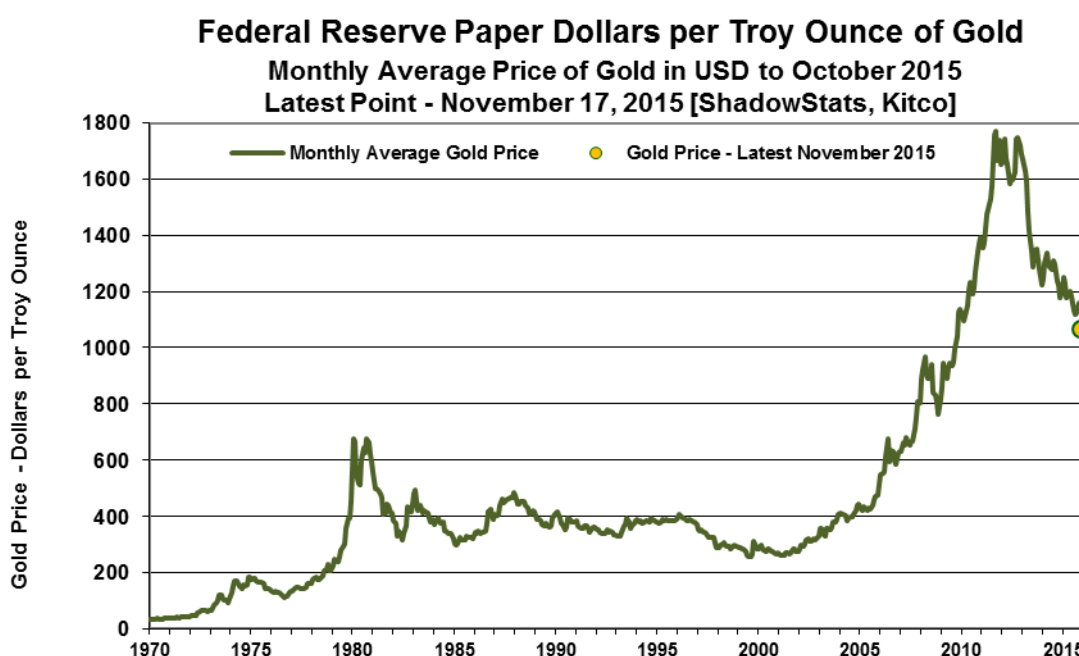
CPI-U: GOLD at \$2,598 per Troy Ounce, SILVER at \$151 per Troy Ounce
ShadowStats: GOLD at \$12,215 per Troy Ounce, SILVER at \$711 per Troy Ounce

Despite the September 5, 2011 historic-high gold price of \$1,895.00 per troy ounce (London afternoon fix), and despite the multi-decade-high silver price of \$48.70 per troy ounce (London fix of April 28, 2011), gold and silver prices have yet to re-hit their 1980 historic levels, adjusted for inflation. The earlier all-time high of \$850.00 (London afternoon fix, per Kitco.com) for gold on January 21, 1980 would be \$2,598 per troy ounce, based on October 2015 CPI-U-adjusted dollars, and \$12,215 per troy ounce, based on October 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 October 2015 CPI-U inflation, the 1980 silver-price peak would be \$151 per troy ounce and would be \$711 per troy ounce in terms of October 2015 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

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

Graph 11: Monthly Average Gold Price in Dollars (Federal Reserve Notes)



Real (Inflation-Adjusted) Retail Sales—October 2015—Intensified Recession Signal; Monthly Contraction of 0.2% (-0.2%); Suggestion of Fourth-Quarter Contraction. Not adjusted for inflation, headline nominal retail sales rose by 0.05% in October 2015, following a downwardly-revised contraction of 0.02% (-0.02%) [previously a gain of 0.10%] in September, as detailed in [Commentary No. 766](#) of November 13th. Year-to-year October 2015 nominal retail sales growth slowed to 1.69%, following a downwardly revised 2.20% [previously 2.36%] annual gain in September 2015.

Headline Reporting of Real Retail Sales. Based on today's (November 17th) reporting of a headline monthly gain of 0.20% in the seasonally-adjusted October 2015 CPI-U, and in the context of a headline contraction of 0.15% (-0.15%) in the seasonally-adjusted September CPI-U, October 2015 real retail sales fell month-to-month by a headline 0.2% (-0.2%) [down by 0.15% (-0.15%) at the second decimal point], while September real retail sales rose by a revised 0.1% (0.13% at the second decimal point) [previously up by 0.3% (0.26% at the second decimal point)].

First-quarter 2015 real retail sales contracted at a revised annualized pace of 1.21% (-1.21%), with unrevised annualized second-quarter 2015 growth at 3.72%, revised third-quarter growth at 2.94%, and—based on reporting for just October—an initial indication for fourth-quarter 2015 of an annualized contraction of 0.15% (-0.15%).

Real Year-to-Year Growth Still Generated a Deepening Recession Signal. With seasonally-adjusted headline year-to-year CPI-U inflation up by 0.17% in October 2015, and down by 0.03% (-0.03%) in September 2015, year-to-year growth in October 2015 real retail sales was 1.57%, versus a revised 2.22% [previously 2.38%] in September 2015.

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, and now again in October. Year-to-year real change here was 1.60% for third-quarter 2015. 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.

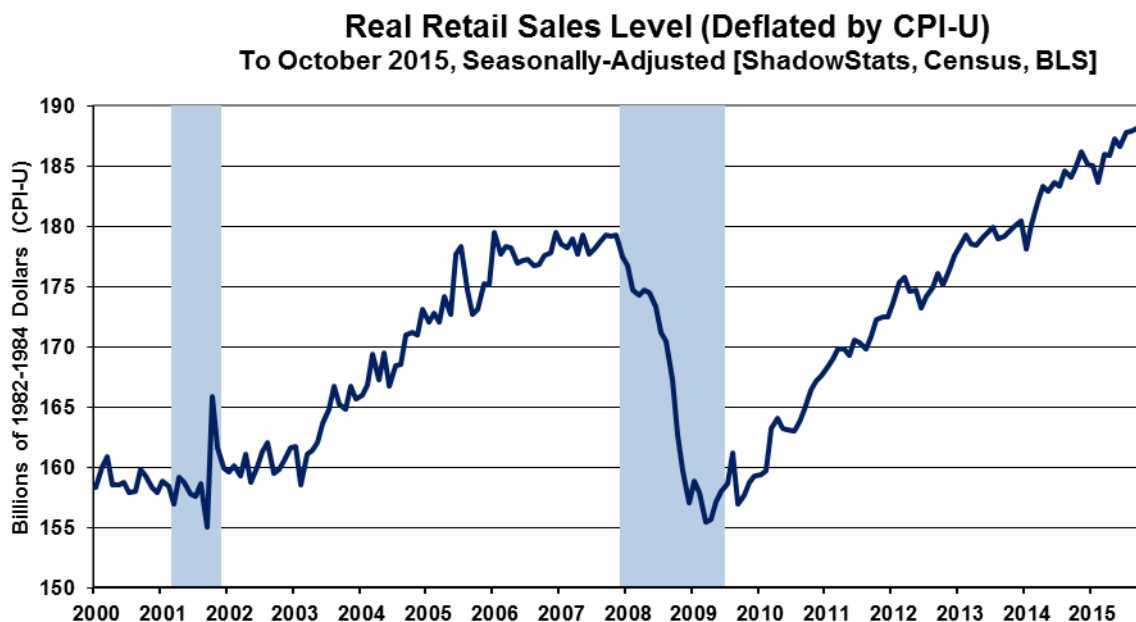
Discussed in [Commentary No. 766](#), the primary issues constraining headline retail sales activity remain intense, structural-liquidity woes besetting the consumer. That circumstance—in the last eight-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad 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 retail sales or 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 is gaining recognition as a formal “new” or double-dip recession.

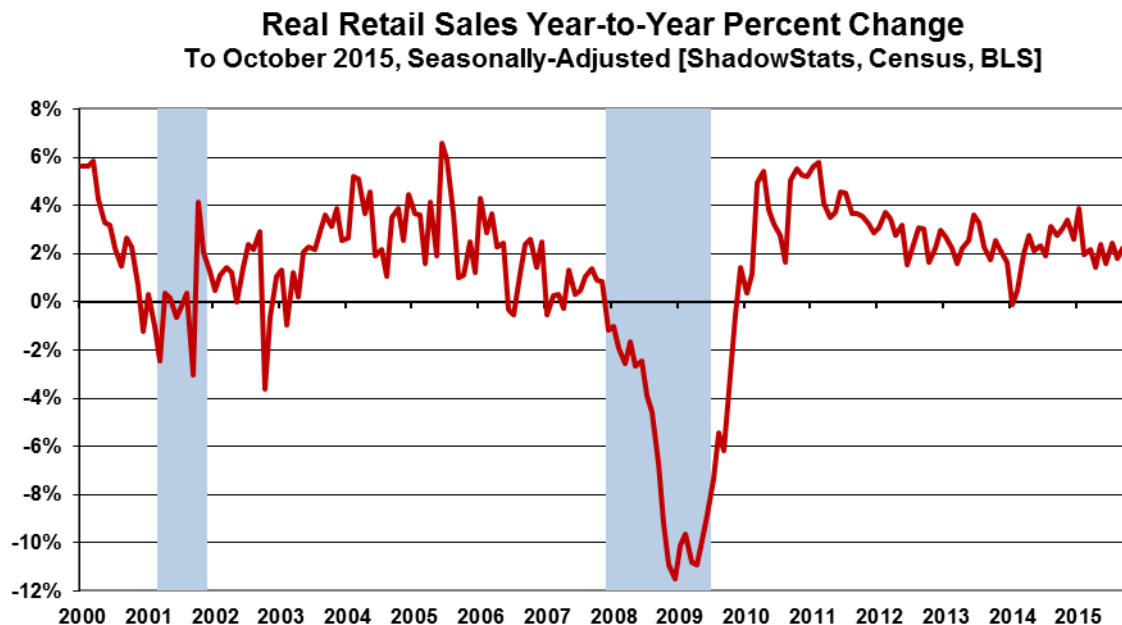
Real Retail Sales Graphs. *Graph 12*, the first of the four graphs following, shows the level of real retail sales activity (deflated by the CPI-U) since 2000; *Graph 13* shows the year-to-year percent change for the same period. The level of headline monthly activity turned lower in October, with recent headline gains dissipating in revision. Annual real growth has slowed markedly.

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, slowing sharply in October, and still generating a traditional recession signal, as discussed earlier. *Graphs 14 and 15* show the level of, and annual growth in, real retail sales (and its predecessor series) in full post-World War II detail.

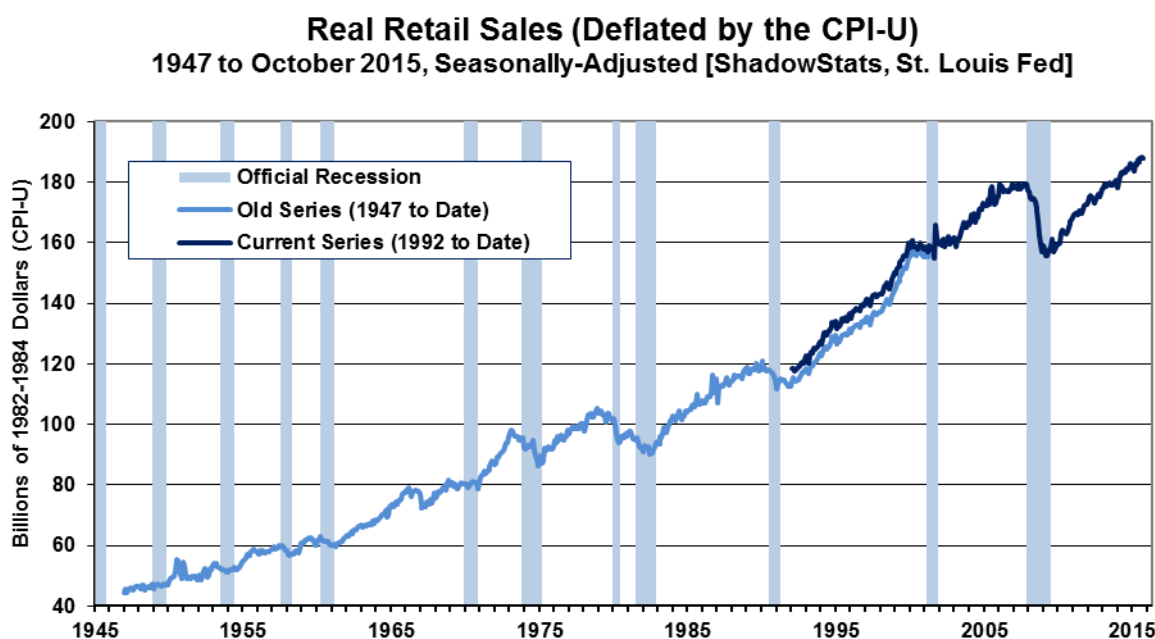
Graph 12: Real Retail Sales (2000 to 2015)



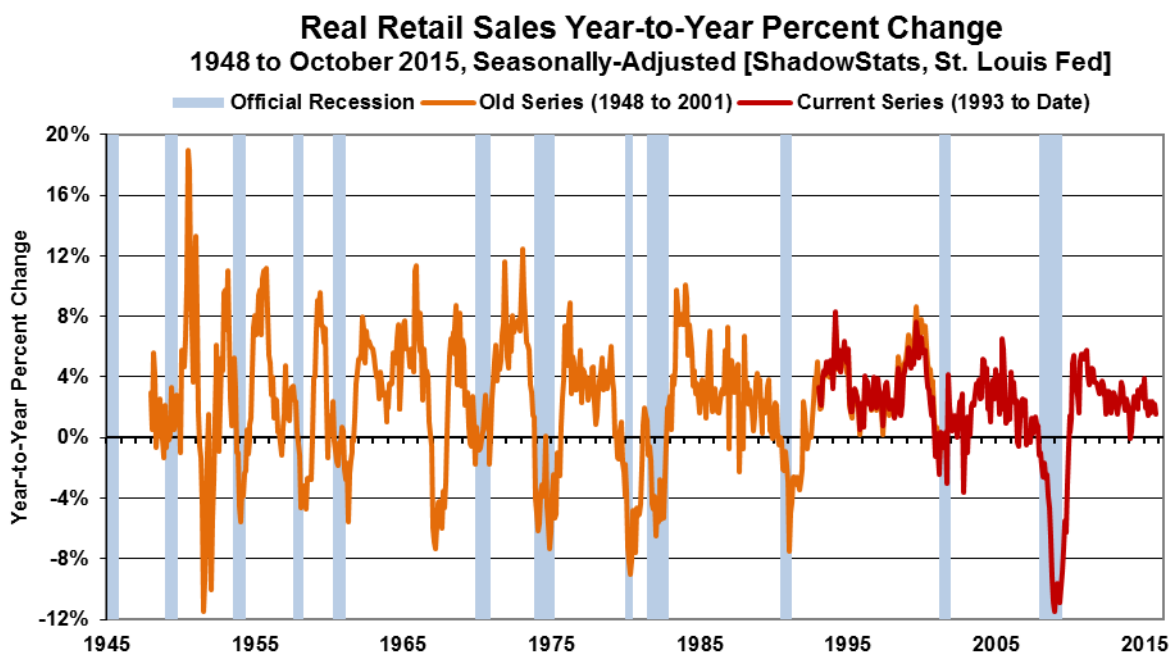
Graph 13: Real Retail Sales (2000 to 2015), Year-to-Year Percent Change



Graph 14: Real Retail Sales (1947 to 2015)



Graph 15: 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 and continues to date. 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—October 2015—Real Earnings Rebounded in October, Despite Higher Inflation. Coincident with the release of the October 2015 CPI-W, the BLS published its estimate for real average weekly earnings in October, for production and nonsupervisory employees. Headline CPI-W rose by 0.19% in October 2015, having declined by 0.28% (-0.28%) in September.

In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings in October rose by 0.54%, despite the higher inflation, thanks to an estimated gain of 0.3 hours worked per week, combined with a 0.4% gain in average hourly earnings, net of the CPI-W inflation. Real September earnings were boosted by negative CPI-W inflation of 0.28% (-0.28%) to an unrevised monthly decline of 0.01% (-0.01%). That followed a revised real headline gain of 0.44% [previously up by 0.39%, initially up by 0.35%] in August earnings. The headline reporting here reflected the usual surveying and seasonal-factor instabilities common to BLS payroll survey reporting.

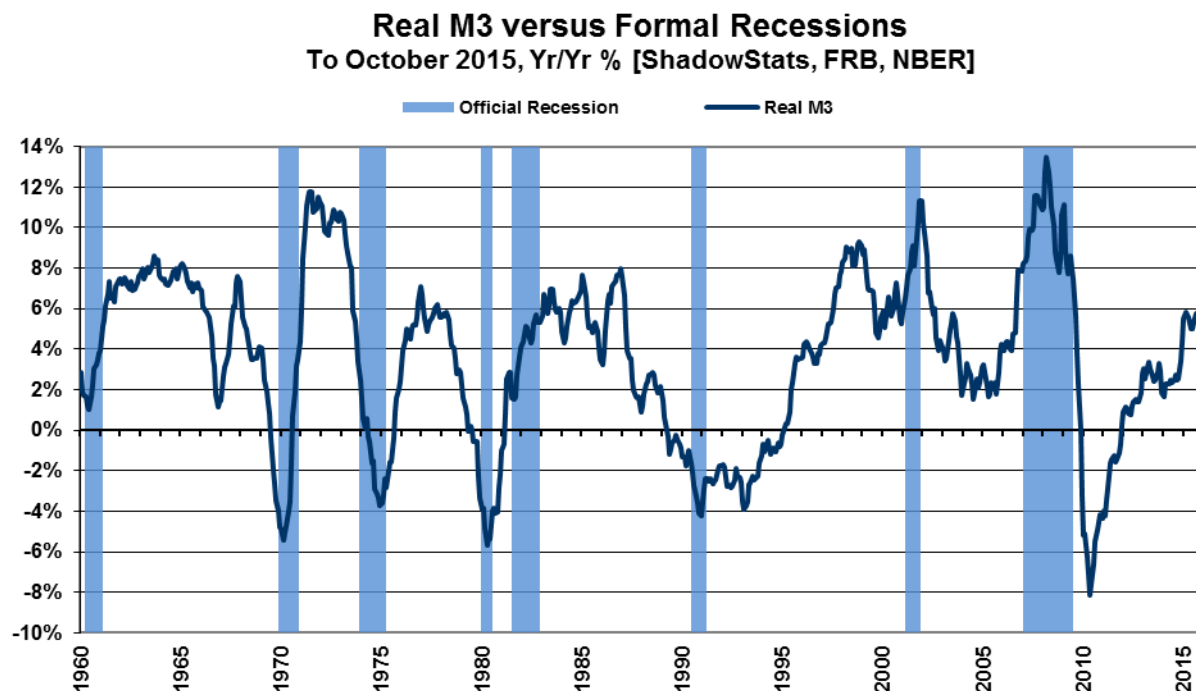
Year-to-year and seasonally-adjusted, October 2015 real average weekly earnings rose by 2.66%, versus a revised 2.32% [previously 2.28%] in September 2015 and a revised 2.24% [previously 2.19%, initially 2.14%] in August 2015. Both the monthly and annual fluctuations in this series are irregular, but 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 [Public Commentary on Inflation Measurement](#) for further detail.

Real (Inflation-Adjusted) Money Supply M3—October 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 October 2015 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for

October 2015 annual growth declined to 5.4% from an unrevised 5.7% in September 2015. The decline in the monthly rates of year-to-year change reflected both an increase in annual CPI-U inflation and a continuing decline in annual M3 growth (see [Commentary No. 765](#)).

Graph 16: 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](#).

INDEX OF INDUSTRIAL PRODUCTION (October 2015)

Amidst Indications of a Quarterly Contraction in Production, Deteriorating Annual Growth Held Well Within Recession Territory. With headline October 2015 industrial production reporting in hand, the production series continued to show deteriorating economic conditions, a deepening and intensifying recession. Monthly and annual activity patterns in the first month of fourth-quarter 2015 reporting not only continued to falter in a manner last seen coming into the economic collapse, but also they were fully consistent with an ongoing recession. Shown in *Graphs 17* and *19*, annual growth in production has declined to a low level rarely seen other than at the onset of or in formal recessions.

Intensifying Downturn in Quarterly and Annual Production Upon Entering Fourth-Quarter 2015.

First-quarter 2015 production contracted at an unrevised annualized quarterly pace of 0.35% (-0.35%), followed by a revised annualized pace of second-quarter 2015 contraction at 2.28% (-2.28%) [previously down by 2.36% (-2.36%), 2.61% (-2.61%), 2.04% (-2.04%) and initially down by 1.75% (-1.75%)].

Based on revised full reporting for third-quarter 2015, annualized quarterly growth revised higher to 2.62% [previously up by 1.85%].

That said, although headline third-quarter activity was spiked relative to second-quarter 2015, by an unusual surge in July and August automobile production, the revised level of aggregate third-quarter 2015 production now stands just 0.07% above the index level for first-quarter 2015 and just 0.02% (-0.02%) below the index level of fourth-quarter 2014.

Based solely on the headline reporting for October 2015, the early indication for fourth-quarter 2015 is an annualized quarterly contraction of 1.1% (-1.1%) in production activity. Such would be the third-quarterly contraction in the year. The headline October monthly production contraction was the eighth of the last ten months.

Separately, year-to-year growth in quarterly production continued to decline, from 4.47% in fourth-quarter 2014, to 3.47% in first-quarter 2015, to a revised 1.46% [previously 1.44%] in second-quarter 2015, to a revised, still post-economic-collapse low of 1.14% [previously 0.93%] in third-quarter 2015. Such a pattern of slowing annual growth has not been seen since first-quarter 2008, the official onset the economic collapse. The initial indication for fourth-quarter 2015 production activity is for a headline year-to-year decline in activity of 0.3% (-0.3%).

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

Headline Industrial Production—October 2015. The Federal Reserve Board released its first estimate of seasonally-adjusted, October 2015 industrial production this morning, Tuesday, November 17th. In the context of an upside revision to third-quarter activity—reflected in an upside revision of 0.27% in the level of September production—headline monthly production declined by 0.15% in October 2015. That followed a revised decline of 0.21% (-0.21%) [previously down by 0.19% (-0.19%)] in September, a revised 0.09% gain [previously down by 0.15% (-0.15%), initially down by 0.38% (-0.38%)] in August, and a revised 0.78% gain [previously up by 0.76%, by 0.87% and initially up by 0.56%] in July.

Primarily, the upside revision to the level of August activity accounted for the bulk of the boosted, headline second-quarter activity. As a result, net of prior-period revisions, the headline monthly October gain was 0.11%, close to market expectations. Yet, the revisions shifted weakening production activity into the present, with monthly activity dropping off sharply in September and October 2015, and with suggestions of quarterly and annual contractions in activity being imminent. If November 2015 production activity does not gain more than 0.5% month-to-month, relative to current headline October production, annual and quarterly contractions effectively will be locked in for fourth-quarter 2015.

Detailed in *Graphs 20 to 23*, including major industry groups, the headline October 2015 monthly aggregate production loss of 0.2% (-0.2%) [a September contraction of 0.2% (-0.2%)] was composed of a gain of 0.4% in October manufacturing activity [a September decline of 0.1% (-0.1%)]; an October decline of 1.5% (-1.5%) in mining (including oil and gas production) [a September monthly decline of 2.4% (-2.4%)]; and an October decline of 1.5% (-1.5%) in utilities [a September gain of 1.2%].

Year-to-year, October 2015 growth softened to 0.34%, versus an upwardly-revised annual gain of 0.66% [previously up by 0.39%] in September 2015, an upwardly-revised annual gain of 1.41% [previously up by 1.11%, initially up by 0.91%] in August 2015, an upwardly-revised gain of 1.35% [previously up by 1.29%, 1.33% and initially up by 1.32%] in July 2015. Again, annual growth has fallen to low levels usually seen only at the onset of or during formal recessions.

Production Graphs. The regular two sets of long- and short-term industrial production levels and annual growth rates (*Graphs 17 to 20*) set the background for the drill-down detail graphs of various components of the aggregate industrial series (*Graphs 21 to 28*).

Graphs 17 and 18, and *Graphs 19 and 20* show headline industrial production activity to date. *Graph 17* 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 now well below 1.0%, the pattern again is one rarely seen outside of the onset of a formal recession.

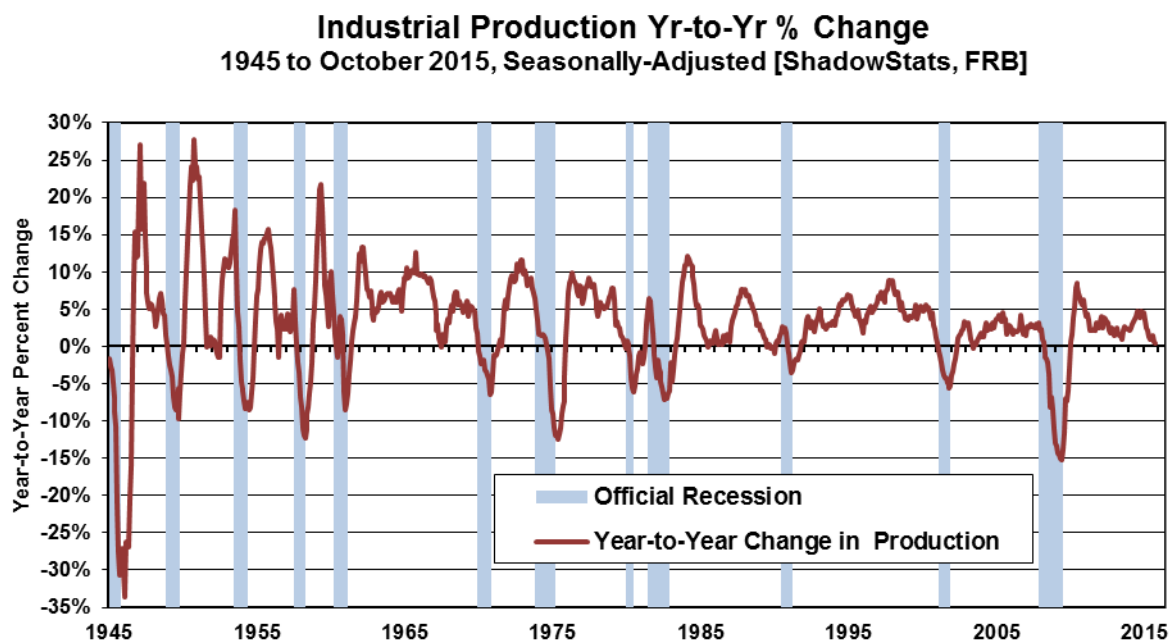
Graph 18 shows the monthly level of the production index, with a topping-out and renewed downturn—deepening quarterly contractions in first- and second-quarter 2015—with a bounce in July and August turning even lower, again, in September and October 2015. Such patterns of monthly and quarterly decline and stagnation were seen last at the onset of the headline economic collapse from 2007 into 2009. *Graphs 19 and 20* show the same series for more-limited, recent historical detail, beginning January 2000.

Seen 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 recent recessions, bounced higher into mid-2014, fluctuated thereafter and has headed generally lower since. 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 wartime production following World War II.

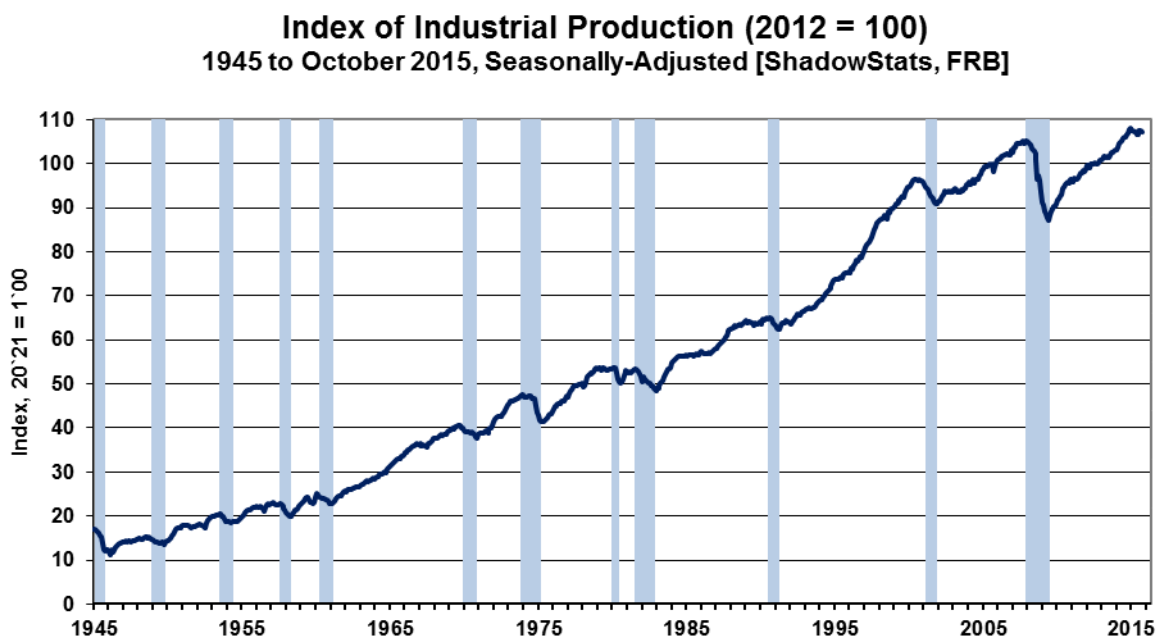
Although official production levels have moved higher since the June 2009 trough, corrected for the understatement of inflation used in deflating portions of the industrial production index (see the *Opening Comments* section, *Graph 5*) the series has shown more of a pattern of stagnation with a slow 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, with monthly activity trending lower again. The “corrected” series has done the same but remains well shy of a formal recovery.

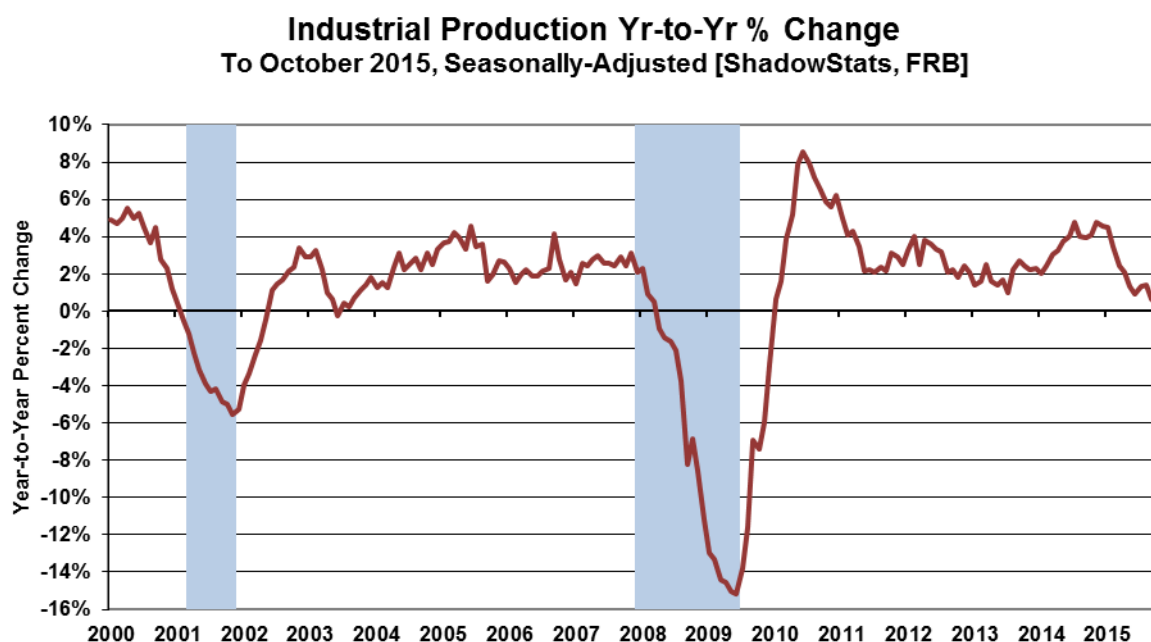
Graph 17: Industrial Production, Year-to-Year Percent Change since 1945



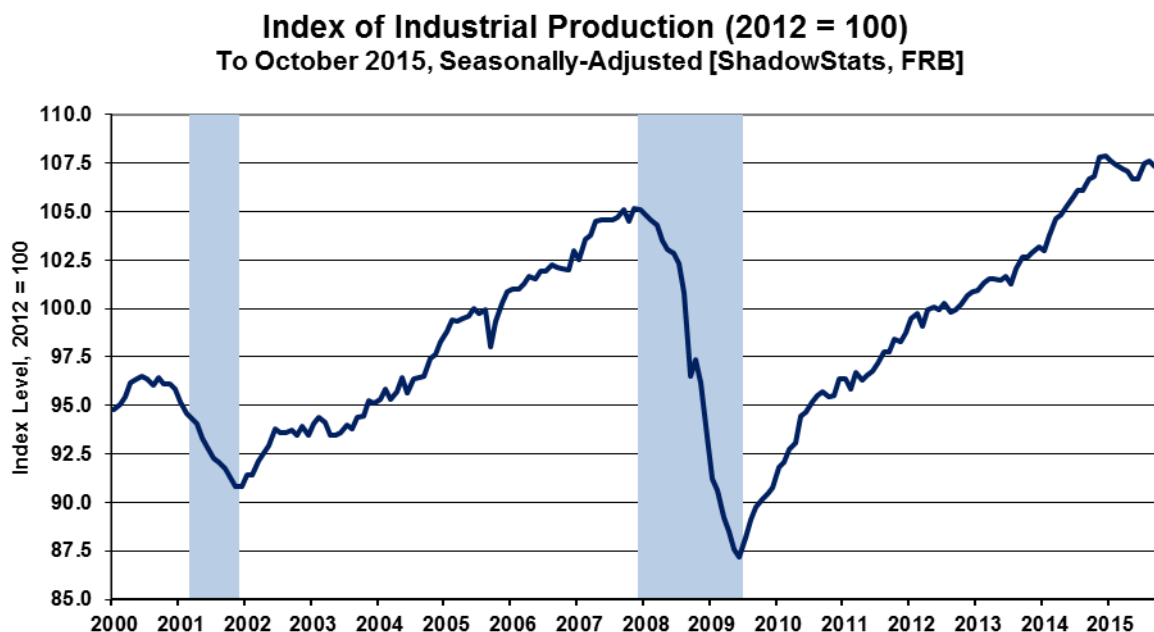
Graph 18: Index of Industrial Production (Aggregate) since 1945



Graph 19: Aggregate Industrial Production, Year-to-Year Percent Change since 2000



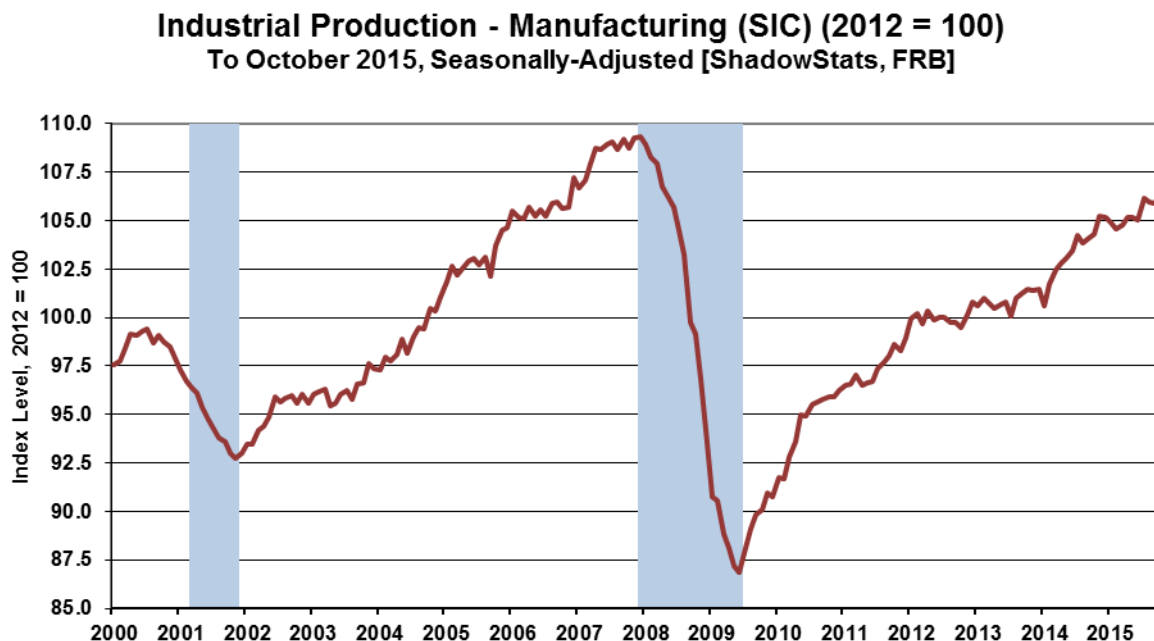
Graph 20: Index of Aggregate Industrial Production since 2000



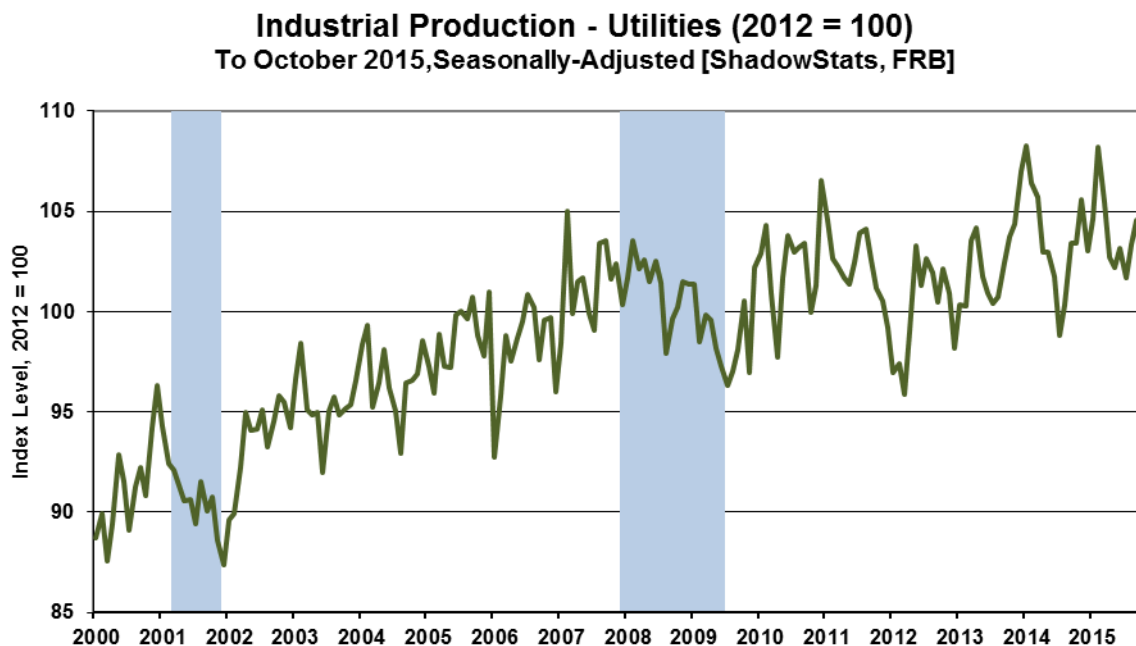
Drilling Down into the October 2015 U.S. Industrial Production Detail. Graphs 20 to 23 show headline reporting of industrial production and some major components. The broad index (Graph 20) contracted in both first- and second-quarter 2015, and is headed lower, again, a circumstance not seen outside of

recessions. Such is detailed in the regular reporting of headline production earlier in this section and in the *Opening Comments*.

Graph 21: Industrial Production – U.S. Manufacturing (73.91% Weighting in Aggregate Index)



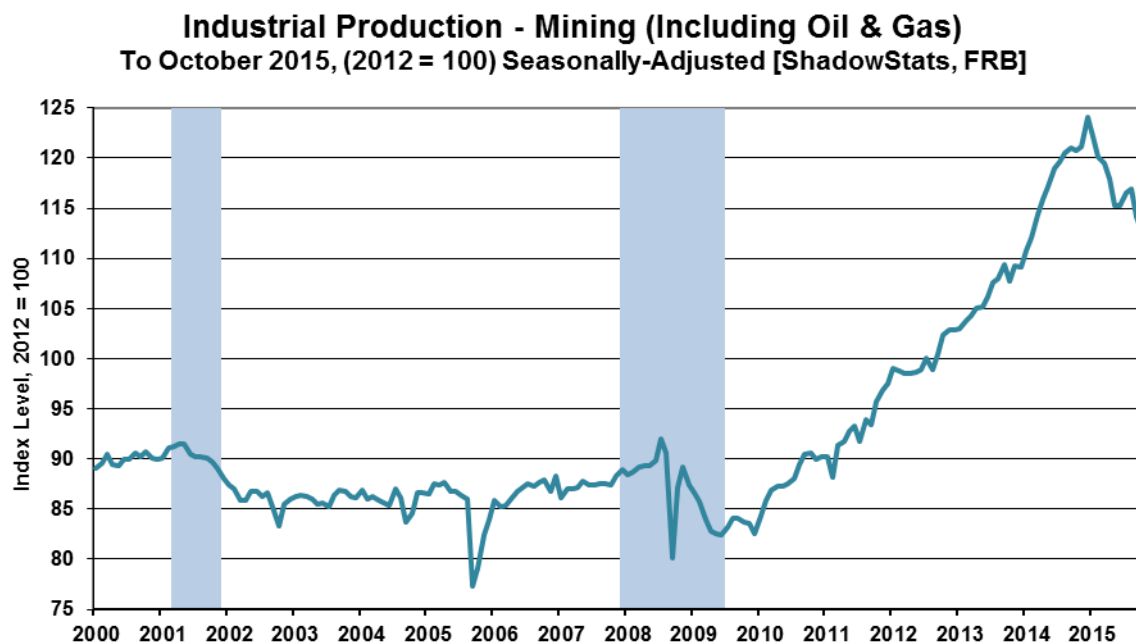
Graph 22: Industrial Production – U.S. Utilities (10.63% Weighting in Aggregate Index)



Graph 21 of the dominant manufacturing sector (73.91%) of aggregate production shows a current, October uptick in month-to-month activity, in the context of a series that has yet to reclaim its pre-recession high.

The utilities sector activity (*Graph 22*), which accounts for 10.63% of aggregate activity, by weighting, fell back in October, but most of the heavy volatility in month-to-month activity reflects the temporary impact of “unseasonable” extremes in weather patterns.

Graph 23: Industrial Production – U.S. Mining, Including Oil and Gas (15.46% Weighting in Aggregate Index)



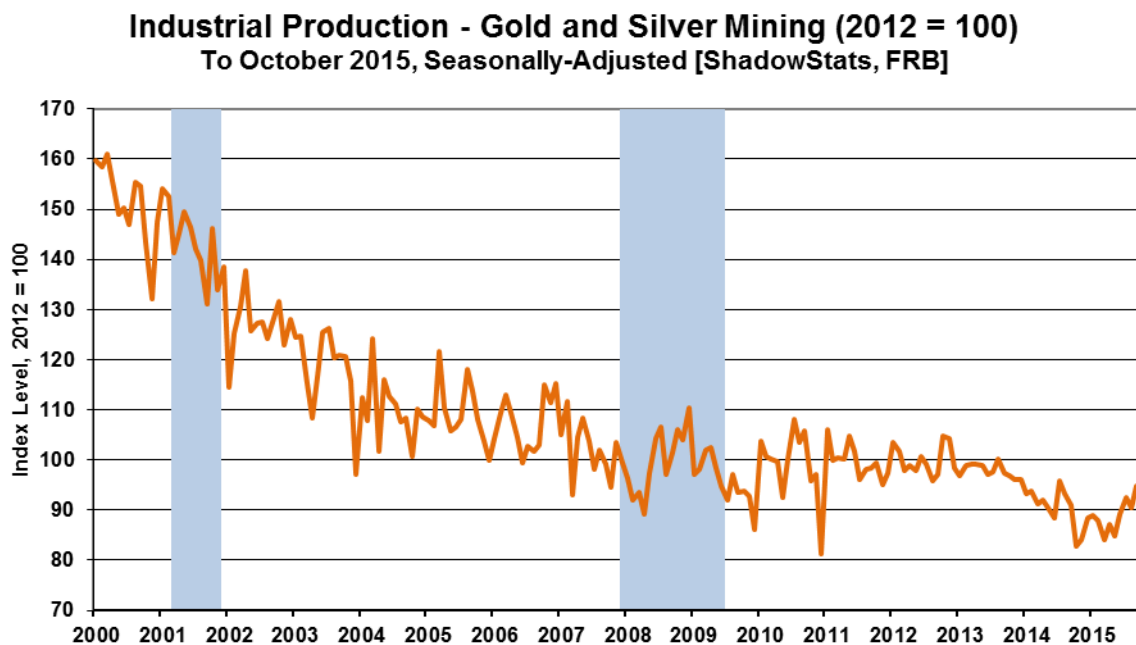
The mining sector activity (*Graph 23*), accounts for 15.46% of aggregate industrial production activity, by weighting. Mining sector activity, particularly oil and gas exploration and production, remain the near-term focus of this analysis, where it has taken an increasing toll on aggregate production and broad economic activity. 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). Broad October activity continued in deepening decline.

Graph 24 reflects continuing monthly gains in gold and silver production, irrespective of the recent pummeling given the prices of precious metals by market interventions likely orchestrated by flailing central banks, while *Graph 25* shows a topping out to the recent monthly rebound in coal production.

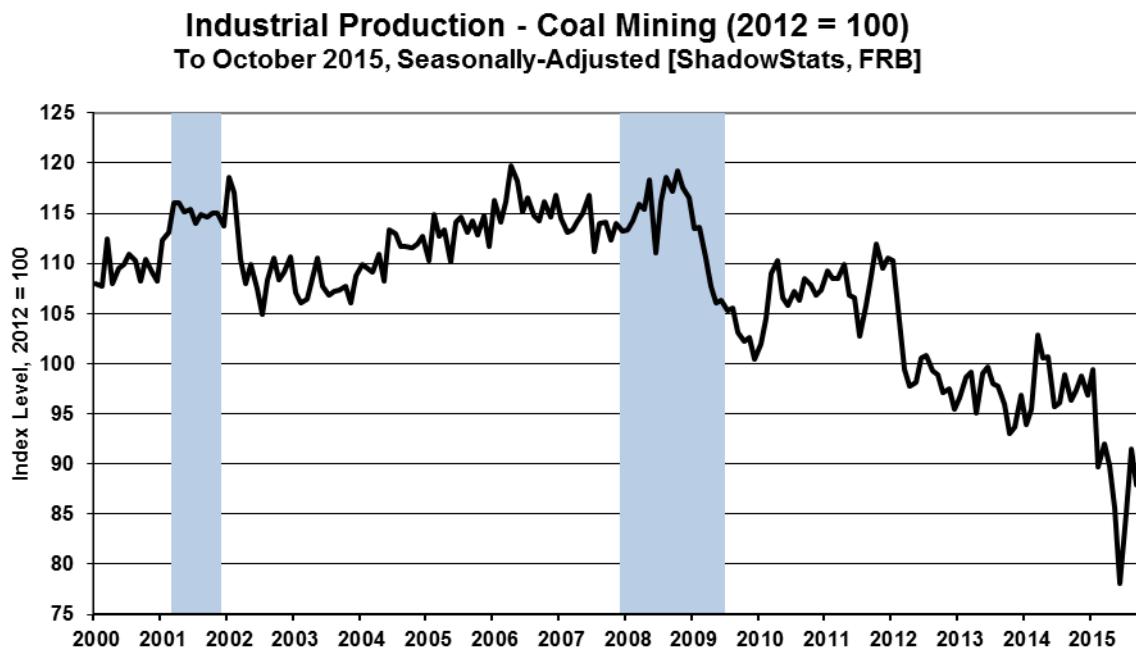
With continued weakness in oil prices, oil and gas extraction is holding near, but increasingly off its all-time high, as seen in *Graph 26*, with exploration, oil and gas drilling (*Graph 27*) activity still bouncing sharply lower. The recent collapse in drilling largely is an artefact of a massive U.S. dollar rally and oil-price plunge—beginning in July 2014—those appeared to be U.S.-orchestrated covert actions designed to stress Russia, financially, in response the circumstance in Ukraine. Shown in *Graph 28* with some lag following the 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).

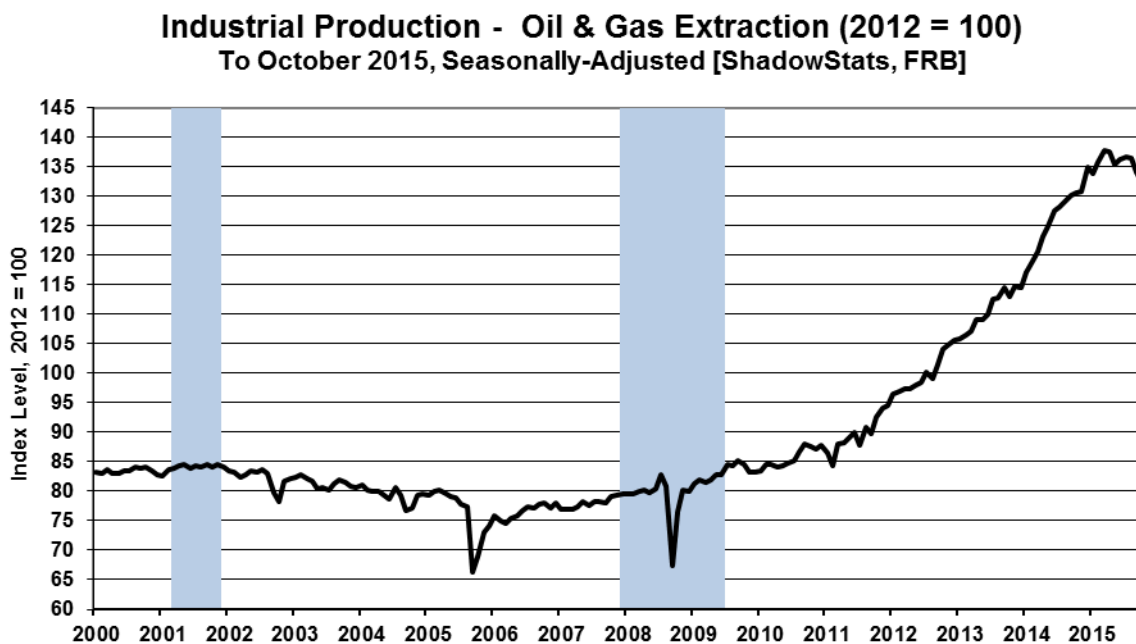
Graph 24: Mining – Gold and Silver Mining (Since 2000)



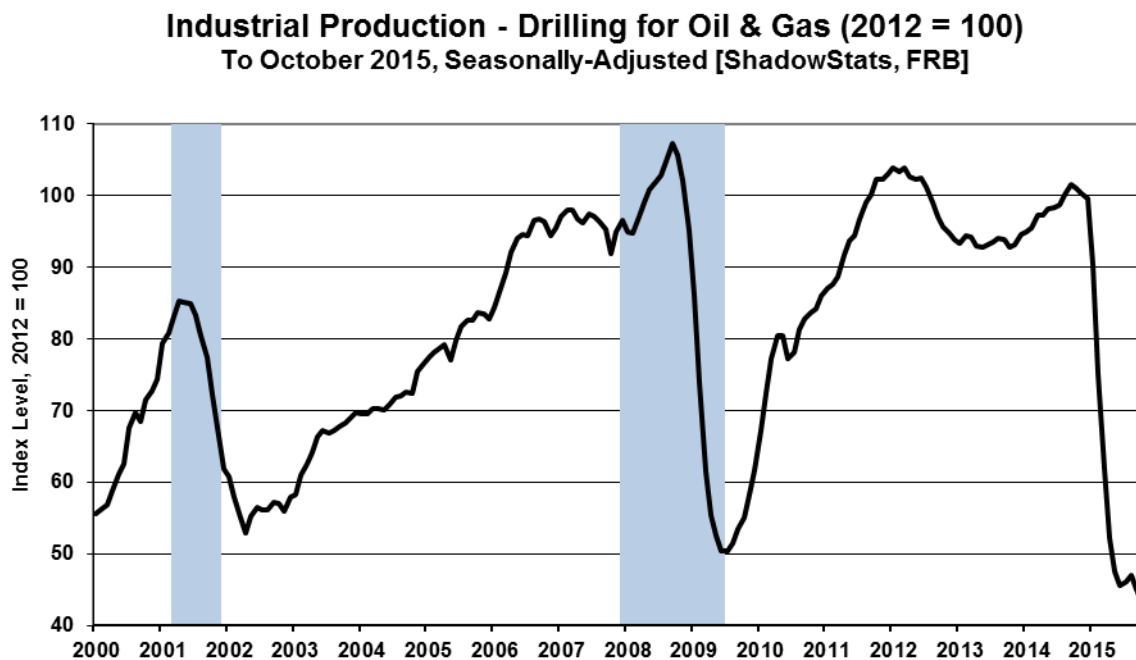
Graph 25: Mining - Coal Mining (Since 2000)



Graph 26: Mining – U.S. Oil & Gas Extraction (Since 2000)



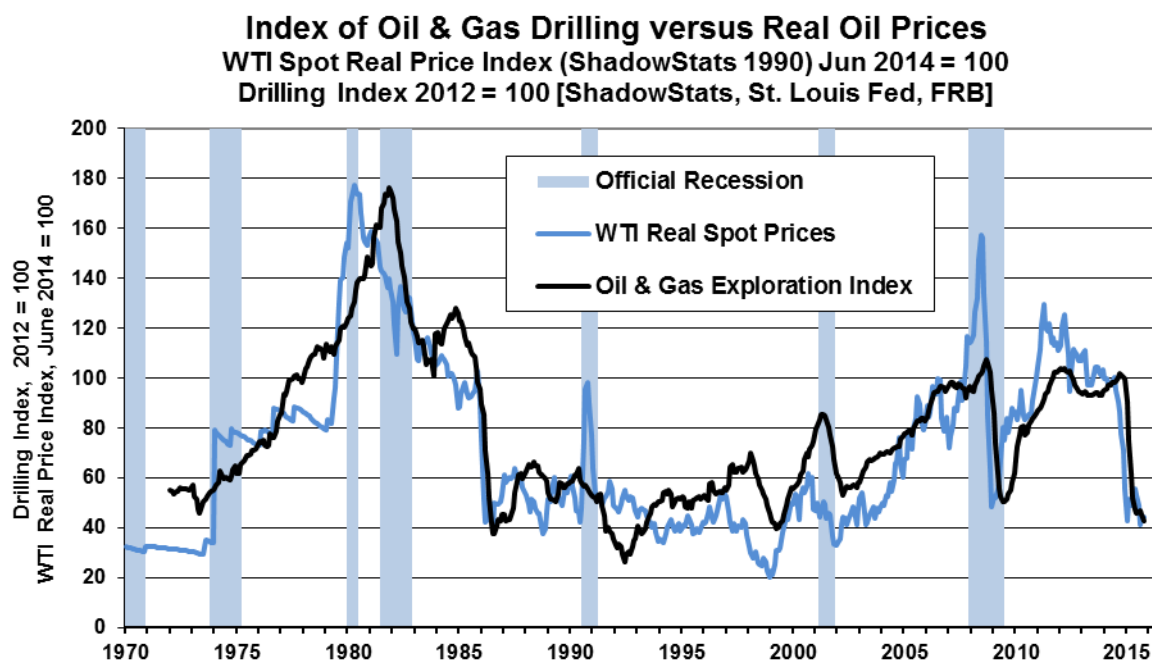
Graph 27: Mining – U.S. Drilling for Oil & Gas (Since 2000)



As the dollar strengthens, dollar-denominated oil prices weaken, and vice versa. At such time as the U.S. dollar declines meaningfully—ShadowStats is looking for a massive sell-off in the dollar in the year

ahead (again, see [No. 742](#), and today's *Gold Graphs* section in the *Hyperinflation Outlook*—oil prices will rally anew, along with surging gold and silver prices).

Graph 28: Mining – U.S. Drilling for Oil & Gas versus Real Oil Prices (WTI ShadowStats 1990 Base)



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, general trend to the downside, amidst mixed reporting in headline data, market expectations for business activity nonetheless can gyrate some with the latest economic hype in the popular media. That general effect holds the consensus outlook still at overly-optimistic levels, with current expectations still exceeding any potential, underlying economic reality. Where the net trend still has been towards weakening expectations, movement towards recession recognition has been at something of an accelerating pace.

Headline reporting of the regular monthly economic numbers increasingly should turn lower in the weeks and months ahead, along with likely downside revisions and otherwise much weaker-than-expected

reporting for at least the next several quarters of GDP (and GDI and GNP) into 2016, including the November 24th first revision to the “advance” third-quarter 2015 GDP estimate.

CPI-U consumer inflation—intermittently driven lower this year by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Annual CPI-U turned minimally positive in June 2015, for the first time in six months, notched somewhat higher in July and August, with a minimal fallback in September, tied to renewed weakness in gasoline prices. Gasoline prices appear to be bottoming out, again, with a combination of relatively stable gasoline prices and related, positive seasonal adjustments helping to boost headline October 2015 CPI-U annual inflation to 0.2%, and likely to hold gasoline-price impact at roughly neutral on headline annual inflation for the November CPI-U.

Significant upside inflation pressures should mount anew, once oil prices 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 RELEASE:

Updated - Residential Construction—Housing Starts (October 2015). The Census Bureau will release October 2015 residential construction detail tomorrow, Wednesday, November 18th. 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. Consensus expectations appear to have settled around a headline monthly contraction versus the initial headline reporting of September 2015 housing starts. Still, in line with likely reporting, expectations are not for statistically-significant monthly change.

Irrespective of what should be meaningless headline detail, the broad pattern of housing starts likely will remain consistent with the low-level, albeit slightly up-trending, stagnation, seen in the series at present. Current activity still is down by about 47% from its pre-recession high, constrained by weak consumer conditions (see detailed in the *Opening Comments* of prior [Commentary No. 766](#)). The low-level stagnation in the series is evident particularly with the reporting detail viewed in the context of a six-month moving average. Separately, this series also is subject to regular and extremely-large, prior-period revisions.

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. Again, best viewed in terms of a six-month moving average, not only is month-to-month reporting volatility frequently extreme, but also those headline monthly growth rates rarely come close to being statistically significant.
