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

**COMMENTARY NUMBER 772**
**Retail Sales, Liquidity, PPI, Federal Obligations, SDRs, FOMC**

**December 11, 2015**

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**Consistent, Fiscal-Year-End 2015 Gross Federal Debt Hit a Post-World War II High at 104.4% of GDP, Total Federal Obligations Exceeded $100 Trillion, at 540% of GDP**

**IMF Gave Chinese Yuan Favorable Consideration and a Strong SDR Weighting**

**0.2% Gain in Nominal Retail Sales Was Not Statistically Significant and Was Not Much Higher than Likely Inflation**

**Continued Sharp Slowing of Annual Retail Sales Growth Intensified the Signal for Imminent Recession**

**November Industrial Production Set to Turn Negative Year-to-Year for First Time Since the Economic Collapse – An Issue for the FOMC?**

**Headline Monthly PPI Inflation of 0.27% Reflected Continuing Nonsense, Services Inflation Spiked by Falling Gasoline Prices**

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*PLEASE NOTE: The next regular* Commentary*, scheduled for Tuesday, December 15th, will cover the November Consumer Price Index (CPI) and related Real Retail Sales and Real Earnings. A December 16th* Commentary *will cover November Industrial production and Housing Starts. In the event of intervening developments that require a more-timely response, a* Flash Commentary *will follow.*

*Best wishes to all — John Williams*

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## OPENING COMMENTS AND EXECUTIVE SUMMARY

**FOMC Rate Hike Is a Fair Bet, but Remains Far from Certain.** Discussed in prior *Commentary No. 771*, the financial markets generally are viewing a rate hike by the Federal Reserve's Federal Open Market Committee as a virtual certainty, to be announced at the close of the FOMC meeting on December 16th. The likely rate move would be for a minimal 25-basis point (0.25%) hike in the federal funds rate (currently at a range of 0% to 0.25%). Such is the interest rate that banks charge each other for overnight lending of funds that are on deposit with the Federal Reserve.

While a rate hike is likely, again, it is not a certainty. After a string of Fed spokespeople talked-up the rate hike last week—effectively floating a string of trial balloons—the junk-bond market went through something of a crash. To the extent that the FOMC has been reticent to boost rates, due to systemic-liquidity concerns or to circumstances other than U.S. economic activity, the junk-bond disruptions could not have been viewed as a positive development by concerned FOMC members.

To the extent the FOMC still has to hold back on a rate hike, the political cover of a weak U.S. economy remains very much in place. Consider today's (December 11th) headline reporting of nominal Retail Sales, which rose in the month by a statistically-insignificant 0.2%. That gain primarily reflected no more than a shift in concurrent seasonal-adjustment factors that boosted the headline monthly sales by 0.2%, without the Commerce Department having to reveal the months from which the adjusted growth had been shifted. Headline sales in this first month of the 2015 holiday shopping season were below consensus. Nominal sales growth barely topped likely headline inflation on a monthly basis, and annual sales growth dropped off sharply.

A minimal upturn in the December 15th headline reporting of the CPI-U for November on December 15th would turn the headline monthly real Retail Sales flat, along with the prospective fourth-quarter growth rate for real Retail Sales (two months in place) indicating a fourth-quarter 2015 contraction. Annual real growth in retail sales had to have dropped well below 1.0% for November, a reading that traditionally would be deep into recession territory.

***Industrial Production Is Headed for Annual and Quarterly Contractions, Promising an Uncomfortable FOMC Meeting.*** Next Wednesday, December 16th, the same date as the scheduled announcement of any shift in FOMC monetary policy, the Federal Reserve also will publish its estimate of November industrial production. The FOMC will have that data in hand for its deliberations, but the news most likely will be disheartening.

With issues going well beyond oil production—the manufacturing sector still has not recovered its pre-recession high—aggregate November 2015 production should show annual growth turning negative for the first time since April 2008, when the economic collapse was accelerating into 2008 and 2009. Where early-consensus expectations appear to be for a headline monthly contraction in November 2015 production, activity would have to rise month-to-month by 0.6%, versus the initial headline reporting of October 2015, in order just to pull even with November 2014. Not only is the annual growth rate an extremely strong bet to turn negative, but with two of three months in hand signaling a quarterly and

annual contraction for fourth-quarter 2015 production, the unfolding "new" recession will become increasingly difficult to ignore.

With three out of four (first, second and fourth) quarters in 2015 showing contracting production, and with an annual contraction likely for fourth-quarter 2015, the FOMC would have a tough time boosting interest rates, if economic activity really were the determining factor in setting current monetary policy. Yet, as frequently discussed here, other than for having political cover for FOMC loosening actions, the Fed's reluctance to raise rates recently likely has had little to do with the economy. Whichever way the FOMC goes on the 16th, financial market reaction is not likely to be positive, shy of market interventions.

**Fiscal Shenanigans Masked Federal Debt Growth.** ShadowStats continues to assess current and recent federal government fiscal activities, in the context of significant distortions and disruptions to headline federal debt and federal-government accounting, tied to year-end displacements forced by debt ceilings, and in terms of shifting underlying assumptions tied to health care, Federal Reserve monetization of Treasury debt, gimmicked accounting, etc.

Estimates of GAAP-based accounting, including debt levels consistent with the U.S. Treasury having to mask its cash-flow activity related to debt ceilings, and along with detail of historic debt and GAAP-based liabilities, all are planned for a full update in a *General Commentary* planned for December 29th, during a week otherwise lacking regular economic releases.

Removing debt-ceiling distortions, adjusting for normal cash flows and borrowing patterns, for example, fiscal-year-end 2015 gross federal debt would have been roughly $18.6 trillion, about $400 billion more than the headline $18.2 billion. The difference was made up in Treasury borrowing after the debt ceiling was reset in November.

Summary details are reflected in the accompanying *Graphs 1* to *3*. Estimates for GAAP-based 2015 are subject to revision. The headline detail to be provided in the *General Commentary* will examine various approaches to measuring the unfunded liabilities of the federal government and how those approaches can impact the measurement of annual GAAP-based shortfalls. As standardly assessed here, fiscal year-end GAAP-based gross federal debt, combined with the net-present value of unfunded federal government liabilities, likely stood at about $100.5 trillion at fiscal year-end 2015, roughly 540% of the nominal U.S. GDP for fiscal 2015. That compares with a coincident gross federal debt to GDP ratio of about 104%.

The current estimate of the 2014 GAAP-based deficit is around $4.2 trillion and the preliminary estimate for 2015 is roughly $4.6 trillion, subject to revision. The general circumstance continues to deteriorate, given the political inability and/or unwillingness of the current U.S. government to address bringing such programs as Medicare and Social Security into long-term solvency. These issues all will be discussed in some detail in the pending *Commentary.*

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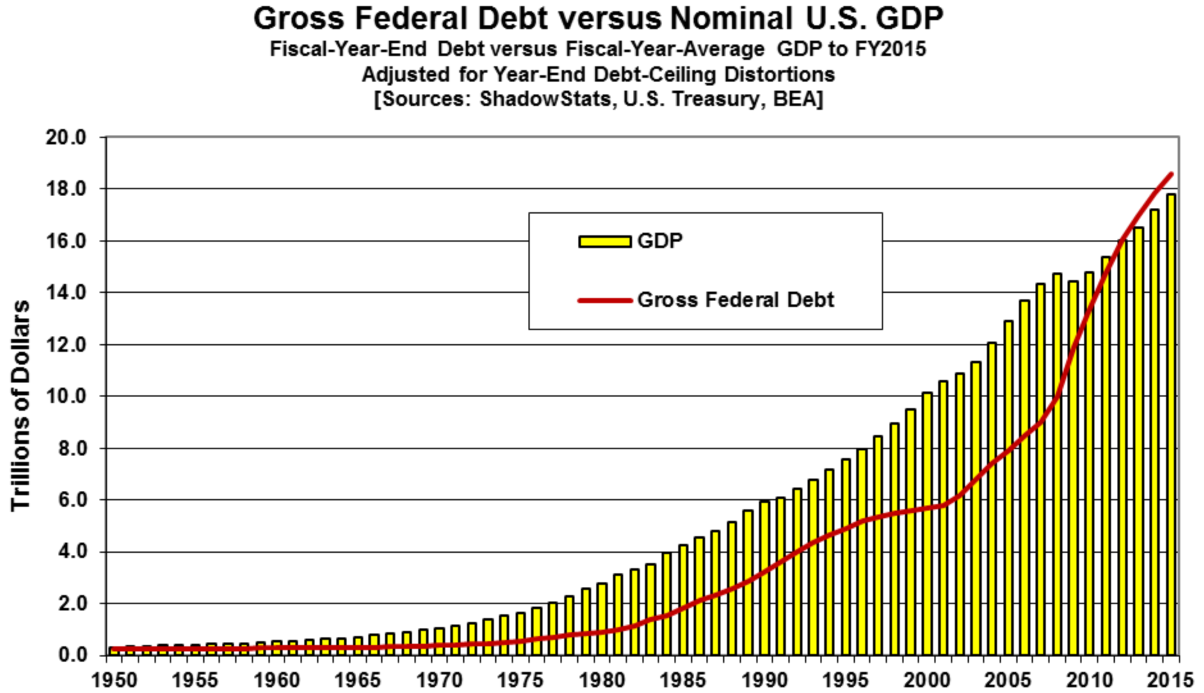
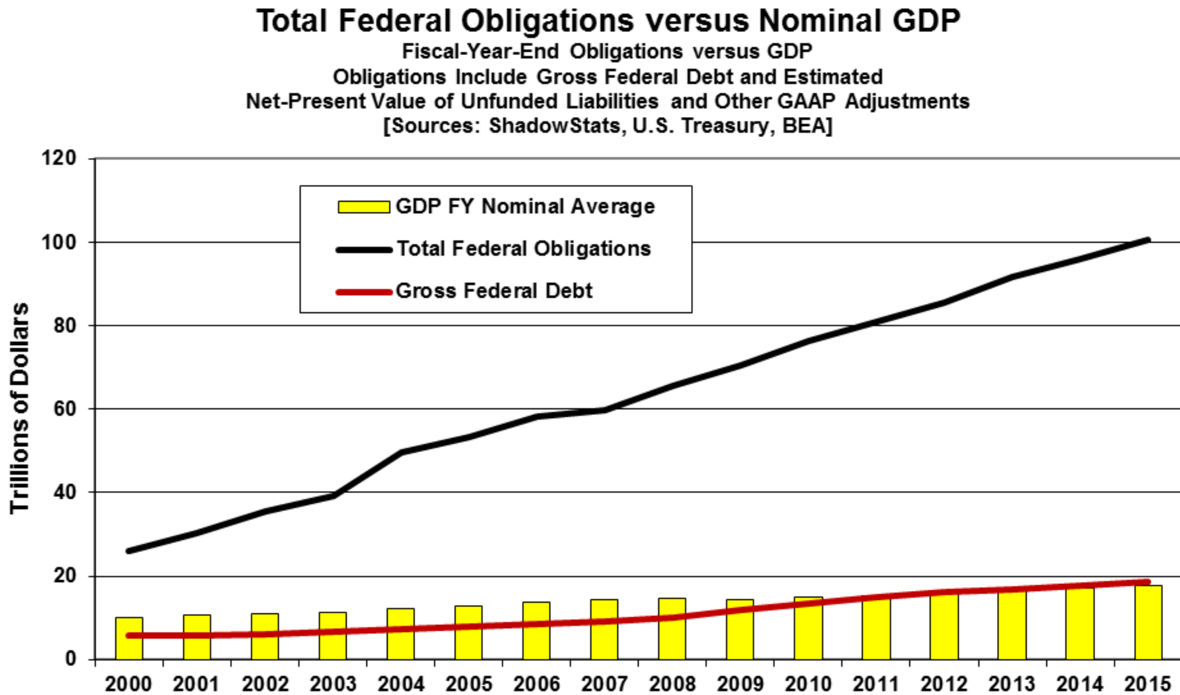
***Graph 1: Fiscal-Year-End Gross Federal Debt versus Nominal GDP***




***Graph 2: Fiscal-Year-End Total Federal Obligations versus Nominal GDP***

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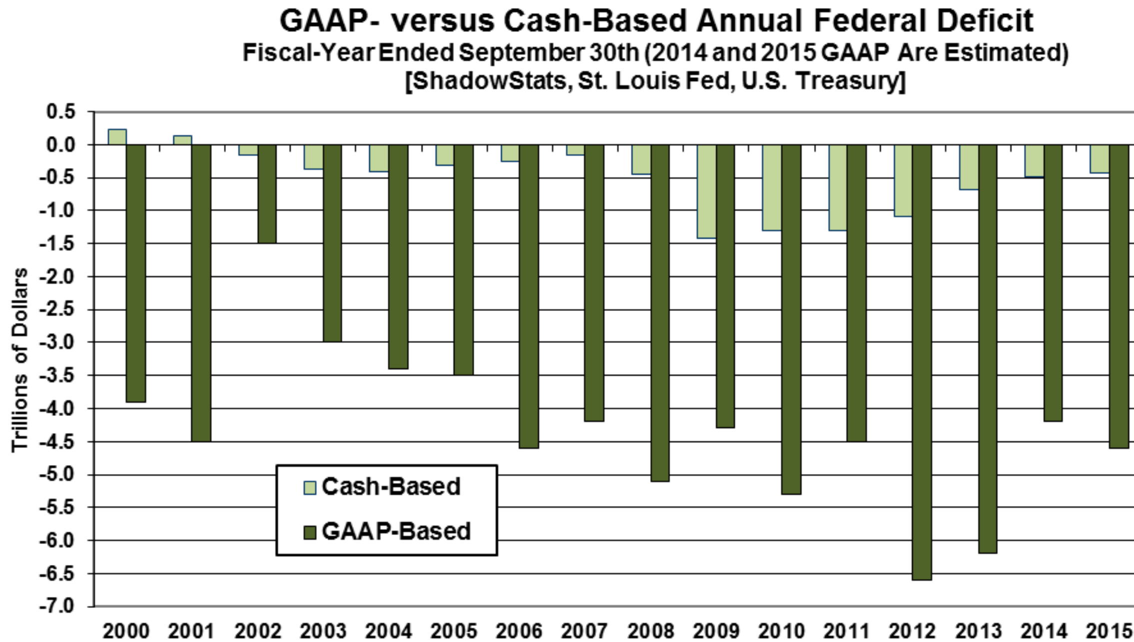
***Graph 3: GAAP- versus Cash-Based Annual Federal Deficit***




**Highly Favorable Treatment by the IMF for the Chinese Yuan (CNY) or Renminbi (RMB) as a Reserve-Currency Component of Special Drawing Rights Basket.** On December 1st, the International Monetary Fund (IMF)—largely controlled by the United States—granted reserve-currency status to the Chinese renminbi (RMB), also known as the Chinese yuan (CNY), as a component of the Special Drawing Rights (SDR) currency basket. The new SDR status becomes effective October 1, 2016.

Somewhat remarkable here is the relative weightings of the existing and new reserve currencies in making up an SDR for the October 1, 2016 basket, versus the respective weightings of the component currencies as measured by the Bank for International Settlements (BIS) in global currency-trading volumes as of the last (2013) BIS Triennial Survey Central Bank Survey.

1. U.S. dollar = 41.73% of SDR weighting, 43.5% of global currency transactions.
2. Euro = 30.93% of SDR weighting, 16.7% of global currency transactions.
3. **Chinese renminbi = 10.92% of SDR weighting, 1.1% of global currency transactions.**
4. Japanese yen = 8.33% of SDR weighting, 11.5% of global currency transactions.
5. Pound sterling = 8.09% of SDR weighting, 5.9% of global currency transactions.

In terms of relative usage in global currency transactions (2013) as a qualification for SDR status, the renminbi jumped ahead of the Australian dollar (4.3%), the Swiss franc (2.6%), the Canadian dollar (2.3%) and the Mexican peso (1.3%). The IMF, however, states that it looks at trade volume as well as the currency volume and currency convertibility in granting the extraordinarily-select SDR status.

Presumably, respective global currency volume increasingly will reflect the renminbi's new reserve status. Accordingly, it has been added to the ShadowStats Financial-Weighted U.S. Dollar, as plotted in

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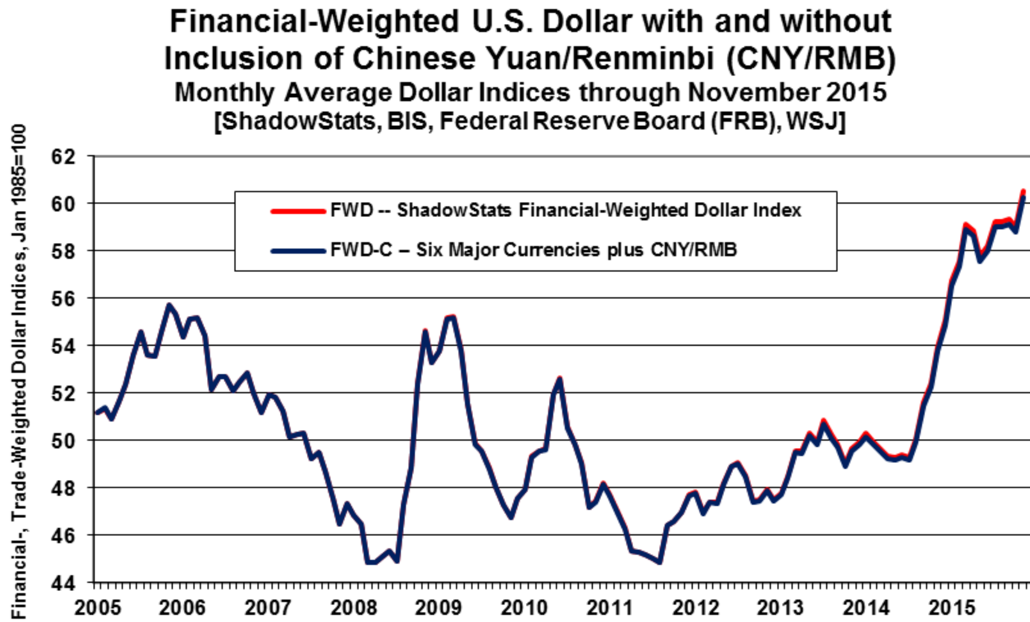
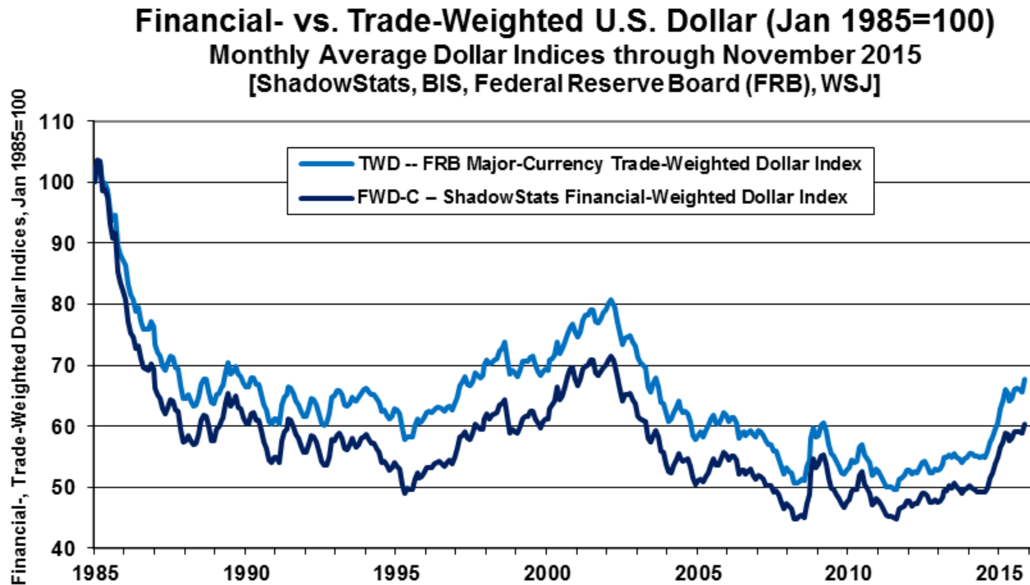
*Graphs 4* and *5.* At present, the headline impact is barely noticeable, but that should change markedly in the year or two ahead.

***Graph 4: Financial-Weighted U.S. Dollar with and without CNY/RMB***




***Graph 5: Financial-Weighted Dollar (Including CNY/RMB) versus Trade-Weighted Dollar***



**Today's *Commentary* (December 11th).** The balance of these *Opening Comments* provides summary coverage of nominal November Retail Sales and a related update to consumer liquidity, as well as a summary of the headline November Producer Price Index (PPI) detail.

The *Hyperinflation Outlook Summary* update has been pushed back until after the FOMC meeting, reflecting the number and nature of issues covered in today's *Commentary*, and considering what may be rapidly unfolding developments in the week ahead. The broad outlook has not changed. If there are intervening developments that require timely comment, a *Flash Commentary* will be issued. In the interim, the latest *Summary Outlook* (November 4, 2015-based) is available here: *Commentary No. 768*.

The *Week Ahead* previews the reporting of the November Consumer Price Index (CPI) and related Real Retail Sales and Real Earnings series, as well as November Industrial Production and Housing Starts.

**Nominal Retail Sales—November 2015—Headline Monthly Gain of 0.2% Reflected No More than Shifting and Inconsistent Seasonal Adjustment Factors.** The headline monthly gain of 0.2% in nominal Retail Sales for November 2015 was statistically insignificant, and it likely was not much greater than the rate of inflation. It also was accounted for by inconsistent and non-comparable shifts in the published seasonally-adjusted data.

The headline November detail was the first from a new sampling of retail establishments by the Census Bureau, with the results purportedly comparable on a month-to-month and year-to-year basis with the prior surveying, but virtually no detail has been made available on the impact of those sampling changes.

Separately, annual retail sales growth slowed sharply, which should translate into an intensified recession signal, net of likely headline November 2015 annual CPI-U inflation. In nominal terms, year-to-year change in sales narrowed to 1.4% in November 2015, versus 1.7% in October 2015. In inflation-adjusted real terms, that would be reflected in annual sales dropping below 1.0% in November, from 1.6% in October, where a recession signal is generated when annual real retail sales growth falls below 2.0%.

Selective prior-year revisions (only October and November 2014) had the effect of distorting and boosting the headline November 2015 monthly retail sales gain. Following on top of a similar distortion in last month's headline October 2015 reporting, a relative upside revision of 0.2% to November 2014 monthly activity, generated a positive swing in relative November 2015 seasonal adjustments of 0.2%. That had the effect of turning otherwise "unchanged" headline November 2015 monthly sales to a headline monthly gain of 0.2% (see the explanation in *Seasonal-Factor Distortions and Other Reporting Instabilities* in the *Reporting Detail*).

***Nominal (Not-Adjusted-for-Inflation) Retail Sales—November 2015.*** In the context of downside revisions to headline September and October 2015 retail sales and boosted by the implied seasonal-factor shifts from an upside revision to November 2014 activity, November 2015 headline nominal sales jumped by 0.2%, at the first decimal point. The beginning of the holiday shopping season and the second largest shopping month of the year, November's headline activity, however, came in below market expectations, with slowing annual growth, and despite a gimmicked headline gain.

At the second decimal point, November 2015 retail sales showed a statistically-insignificant, seasonally-adjusted gain of 0.22% +/- 0.59% (this and all other confidence intervals are expressed at the 95% level).

Net of prior-period revisions, nominal November retail sales gained 0.20% month-to-month. Such followed a statistically-insignificant, revised monthly gain of 0.06% +/- 0.23%, and a revised monthly September decline of 0.06% (-0.06%).

***Year-to-Year Annual Change.*** Year-to-year nominal change in November 2015 retail sales was a statistically-significant increase of 1.35% +/- 0.82%, versus a revised 1.68% gain in October 2015, and a downwardly-revised 2.16% annual gain in September 2015.

***Annualized Quarterly Changes.*** With November headline reporting in place, the pace of annualized nominal retail sales decline in first-quarter 2015 deepened to a contraction of 4.40% (-4.40%), the worst quarter-to-quarter showing since the economic collapse, with annualized second-quarter 2015 retail sales growth unrevised at a gain of 6.81%, and annualized third-quarter 2015 growth at a revised 4.51% annualized gain. Based solely on October and November's reporting, annualized fourth-quarter 2015 growth is on track for an annualized nominal gain of 0.53%. Based solely on initial October reporting, annualized fourth-quarter 2015 growth was on track for a nominal gain of 0.15%.

Net of inflation, the annualized pace of contraction in first-quarter 2015 real retail sales deepened to 1.39% (-1.39%). The quarterly change in second-quarter real retail sales held at an unrevised gain of 3.72%. Third-quarter detail revised lower to a 2.89% annualized gain. The developing fourth-quarter trend will be assessed in the CPI-U *Commentary No. 773*, where headline, real quarterly growth could be negative, as estimated initially based on headline October data. Adjusted for realistic inflation (see *Commentary No. 767* and *No. 742 Special Commentary: A World Increasingly Out of Balance*), real retail sales and the broad economy never truly recovered from the economic collapse into 2008 and 2009.

***Real (Inflation-Adjusted) Retail Sales—November 2015.*** The nominal gain of 0.22% in November 2015 retail sales was before accounting for inflation. The monthly change in real retail sales for November will be published along with the headline estimate of the CPI-U consumer inflation for November 2015, in *Commentary No. 773* of Tuesday, December 15th. Barring a negative surprise to what likely will be a slightly positive headline move in the November CPI-U, the headline monthly change in real November retail sales likely will be slightly positive-to-unchanged, with annual real retail sales growth likely to fall sharply from the current 1.55%, to below 1.0%, generating a greatly intensified recession signal (see the *Week Ahead* section).

Discussed in the following section updating consumer conditions, structural-liquidity woes besetting the consumer not only have prevented a normal recovery in retail sales, and broad U.S. economy activity in general, but also are driving a renewed contraction in headline economic activity.

**Impaired Consumer Liquidity Continues to Thwart Sustainable Economic Growth and Systemic Financial Stability.** Updating the detailed and regular review of consumer liquidity circumstances last seen in *Commentary No. 766*, as well as consumer conditions otherwise discussed regularly in these *Commentaries*, structural liquidity woes continue to constrain economic activity, as they have since before the Panic of 2008. Never recovering in the post-Panic era, limited growth in household income and credit, and a faltering consumer outlook, have eviscerated and continue to impair broad, domestic U.S. business activity, which feeds off the financial health and liquidity of consumers.

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Without meaningful real (inflation-adjusted) growth in household income and without the ability or willingness to take on significant new debt, the consumer simply has not had the wherewithal to fuel a sustainable economic expansion. Impaired consumer liquidity and its direct restraints on consumption have been responsible for much of the economic turmoil of the last eight-plus years, driving the housing-market collapse and ongoing stagnation in consumer-related real estate and construction activity, as well as constraining both nominal and real retail sales activity and the related, personal-consumption-expenditures and residential construction categories of the GDP. Together, those sectors still account for more than 70% of total economic activity in the United States, as measured by the Gross Domestic Product (GDP).

Underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. There has been no economic recovery, and there remains no chance of meaningful, broad economic growth without a fundamental upturn in consumer- and banking-liquidity conditions.

***Household Income Measures Signal Broad-Based Economic Difficulties.*** The Census Bureau recently updated key annual measures of household income for 2014, as graphed and discussed in *Commentary No. 752* (material from *No. 752* is repeated in this section). Unexpected weakness in some of the headline annual income data, though partially masked by changes in survey questions, signaled increasing liquidity difficulties for U.S. households.

Shown first, though, in *Graph 6*, is the latest monthly real median household income detail through October 2015, as reported by www.SentierResearch.com. This measure of real monthly median household income generally can be considered as a monthly version of the annual detail shown in *Graph 7*, but the monthly specifics are generated from separate surveying and questioning by Census, discussed later. Generally, the income series had been in low-level stagnation, with the recent uptrend boosted by dropping gasoline prices.

In the monthly detail, real median monthly household income generally has gained, largely reflecting the impact of collapsing gasoline prices on CPI-U inflation. Where negative inflation boosts the level of real growth relative to nominal growth, much of the recent relative "strength" in the series largely reflected temporary, gasoline-price-driven headline month-to-month contractions in CPI-U reporting, and flat-to-minus annual inflation. Where lower gasoline prices have provided some minimal liquidity relief to the consumer, indications are that any effective extra cash generally has been used to pay down unsustainable debt, not to fuel new consumption.

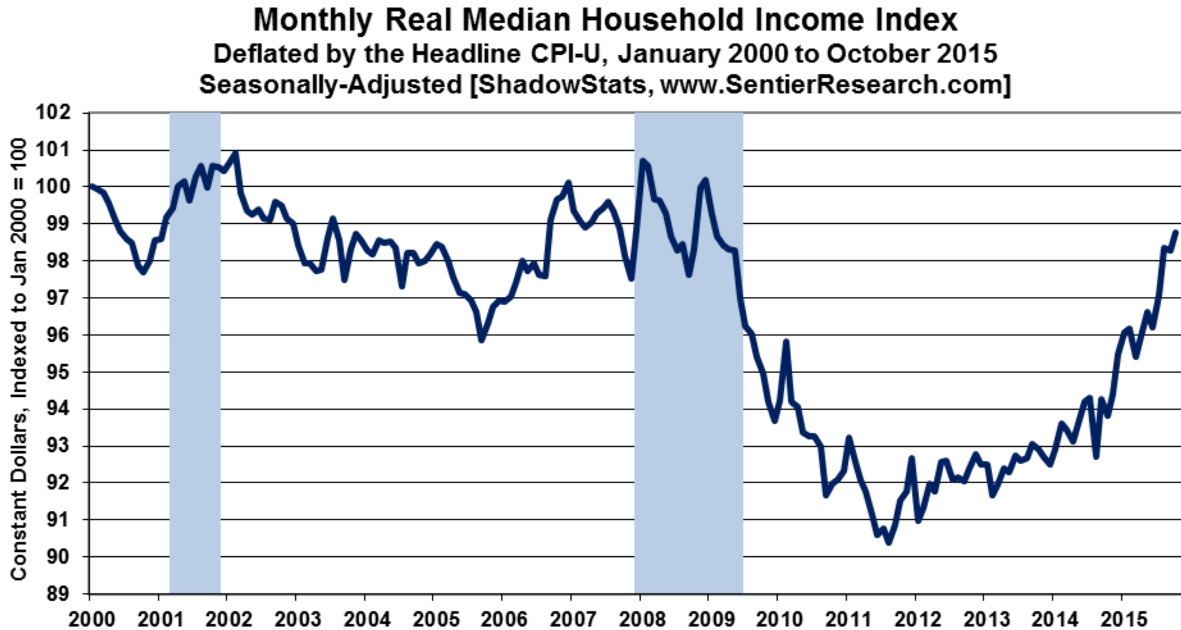
On a monthly basis, when headline GDP purportedly started its solid economic recovery in mid-2009, the monthly household income number nonetheless plunged to new lows. The August 2015 reading had recovered the lowest level seen during the formal recession, before backing off in September but notching higher again in October, but it remains below the pre-recession highs for both the formal 2007 and 2001 recessions.

***Differences in the Monthly versus Annual Median Household Income.*** That general pattern of relative historical weakness also has been seen in the headline reporting of the annual Census numbers, shown in *Graph 7*, with the latest 2014 real annual median household income at a ten-year low. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels. Still, the monthly and annual series remain broadly consistent, although based on separate questions within the monthly Consumer Population

Series (CPS), as conducted by the Census Bureau. The monthly CPS series also is the source of the Household Survey used by the Bureau of Labor Statistics (BLS) in its unemployment reporting.

Where Sentier uses monthly questions surveying current annual household income, the headline annual Census detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income.

***Graph 6: Monthly Real Median Household Income through October2015***




Again, discussed in *Commentary No. 752*, the Census Bureau changed its annual income questionnaire for 2014, with the effect of boosting income reported in 2014. The details on changes between 2013 and 2014, however, also were available on a consistent and comparable basis, and the consistent aggregate annual percentage change of median household income in 2014, versus 2013, was applied to the otherwise consistent historical series to generate *Graph 7*.

In historical perspective from *Graph 7*, 2011, 2012 and 2013 income levels were below levels seen in the late-1960s and early-1970s, with the 2014 income level below the readings through most of the 1970s, aside from being at a ten-year low. Such indicates the long-term nature of the evolution of the major structural changes squeezing consumer liquidity and impairing the current economy (see related discussions in *2014 Hyperinflation Report—The End Game Begins* and particularly *2014 Hyperinflation Report—Great Economic Tumble*).

Such also broadly is consistent with Real Average Weekly Earnings through October 2015, as shown in *Graph 8* and reported by the Bureau of Labor Statistics (see *Commentary No. 767*). Detail for November will be published on December 15th and updated in *Commentary No. 773* of that date.

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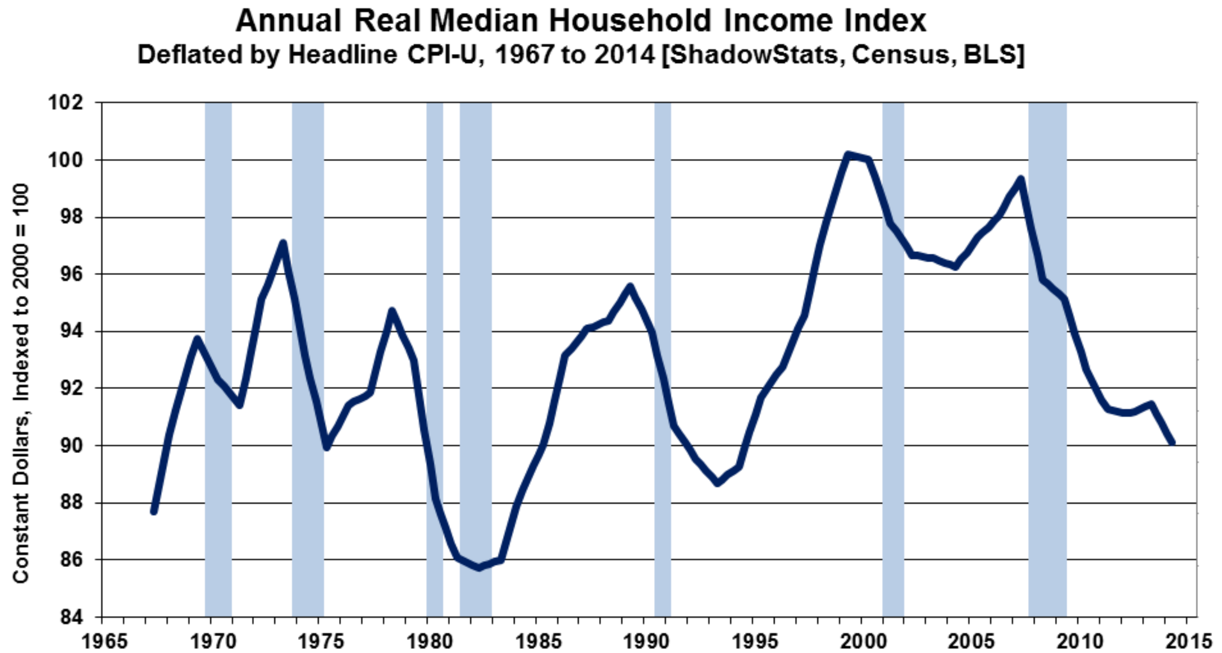
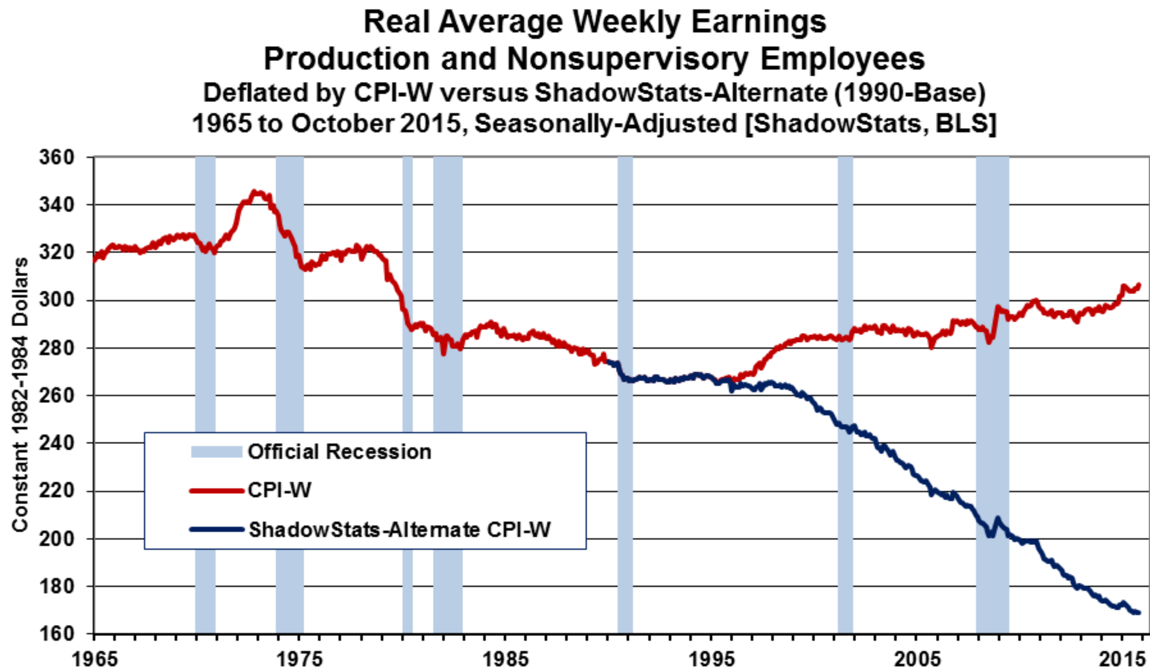
***Graph 7: Annual Real Median U.S. Household Income through 2014***



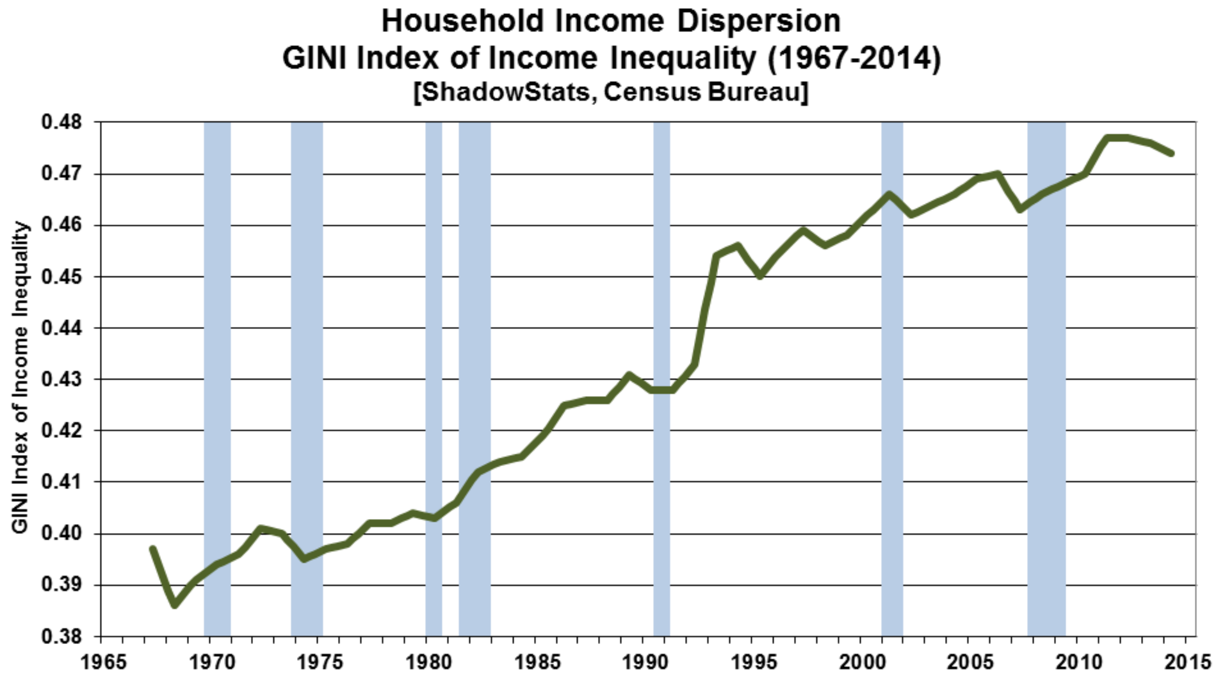

***Graph 8: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-October 2015***



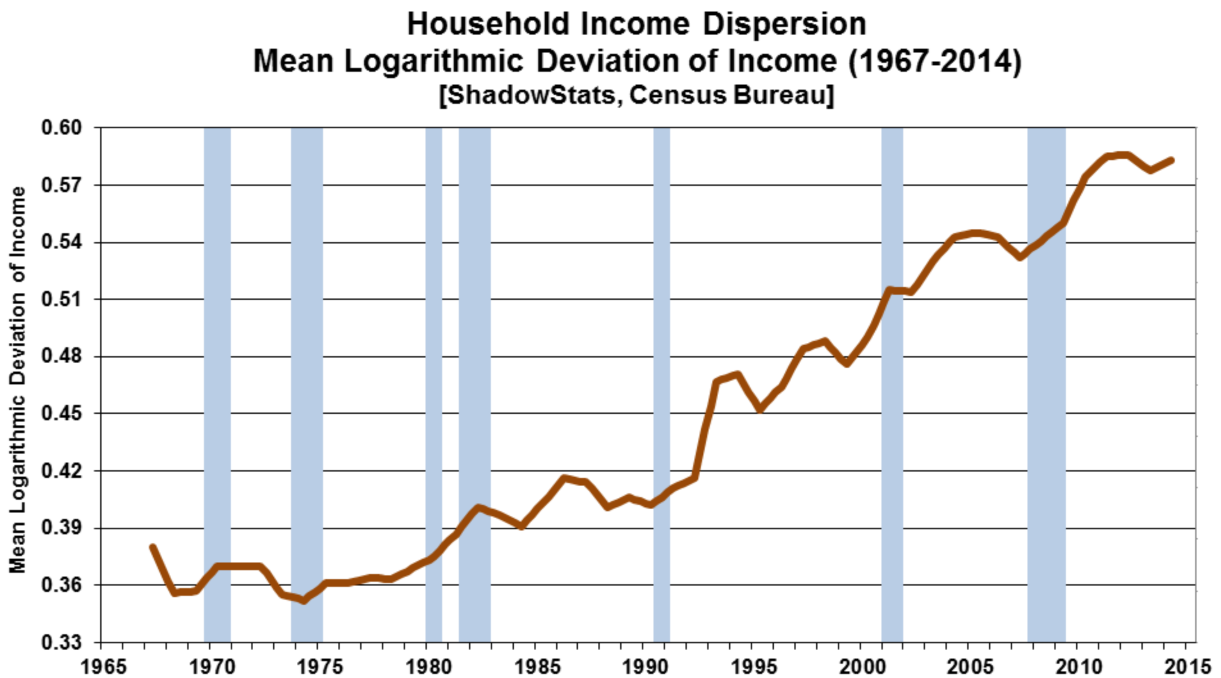

***Income Variance.*** Repeated from *Commentary No. 752*, estimates of income dispersion, or inequality, are shown through 2014 (again, the latest detail available) in *Graphs 9* and *10*. Measures of income dispersion, or variance, indicate how income is distributed within a population. A low level of income

dispersion indicates that income tends to be concentrated in the middle, while a high level of dispersion indicates heavier income concentrations in the extremes of low and high income, with less in the middle. The higher the variance of income, the greater is the income dispersion. Generally, economies with income concentrated in the middle tend to enjoy the stronger and broader economic growth.

***Graph 9: Annual GINI Index of Income Inequality through 2014***




***Graph 10: Annual Mean Logarithmic Deviation of Income through 2014***

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Rising and near-record income dispersion levels usually foreshadow economic and financial-market turmoil. Despite—or perhaps due to—the ongoing nature of the economic and systemic-solvency crises, and the effects of the 2008 financial panic, income dispersion—the movement of income away from the middle towards both high- and low-level extremes—held near record highs in 2014, instead of moderating, as often seen during periods of financial distress.

Conditions surrounding extremes in income variance usually help to fuel financial-market bubbles, which frequently are followed by financial panics and economic depressions. The sequence of those factors tends to redistribute income in a manner that usually lowers income variance, helping economic recovery. Other than for a brief dip following the 1987 stock-market crash, U.S. income variance since 1987 has been higher than has been estimated for the economy going into the 1929 stock-market crash and the Great Depression, and its current reading remains nearly double that of any other "advanced" economy.

Instead of being tempered by the 2008 financial panic and the ongoing economic and systemic-solvency crises, income variance increased to record extremes in the last several years, as shown in *Graphs 9* and *10*, well above levels estimated to have prevailed before the 1929 stock-market crash and the Great Depression. Increasingly difficult times are likely for at least the next several years (see *Commentary No. 658* for a much more extensive discussion of these measures and related economic theory).

The current income variance patterns also suggest that the greatest negative impact of the systemic turmoil, so far, has been on those in the middle-income area. It also remains suggestive of even greater financial and economic crises still ahead.

***Consumer Confidence, Sentiment and Credit.*** The November 2015 reading for the Conference Board's Consumer-Confidence measure and the early-December 2015 reading for University of Michigan's Consumer-Sentiment measures are shown in *Graphs 11* to *13*, along with the latest readings on various consumer credit measures, real third-quarter 2015 household-sector credit-market debt outstanding (*Graph 14*) and October 2015 consumer credit outstanding (*Graph 15*).

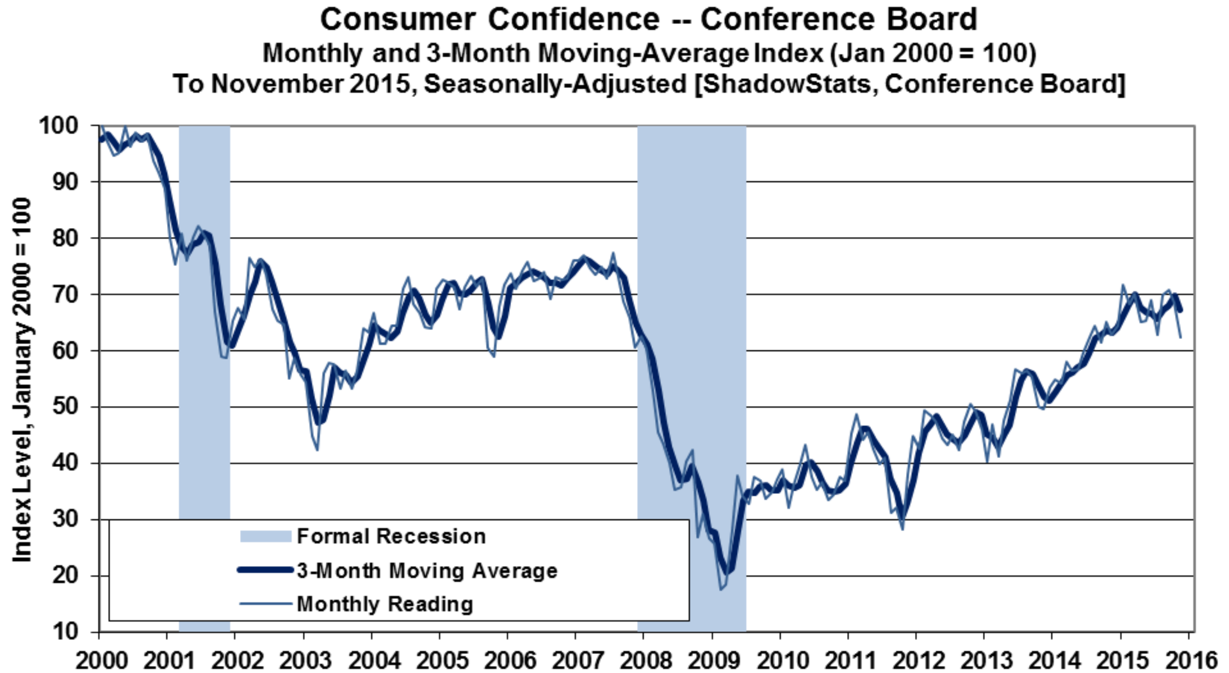
For purposes of showing the Consumer Confidence and Consumer Sentiment measures on a comparable basis, *Graphs 11* to *13* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index (*Graph 11*) and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph 12*) both declined for the full-month of November 2015, with Confidence down particularly sharply in the month. The early-December estimate for Sentiment, published today (December 11th) moved minimally higher subject to potentially meaningful revision at the end of the month. No early-month estimate for Confidence is published, but it always is subject to revision with the next month's reporting.

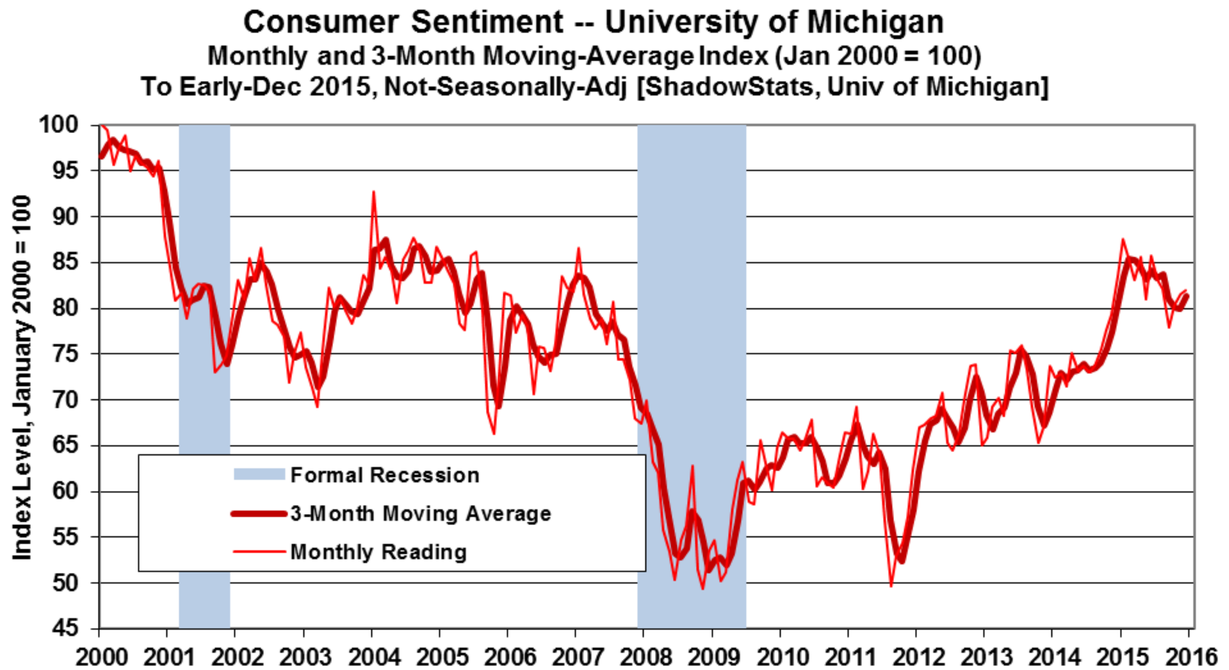
Both series continued to move lower or to hold off near-term peaks, though, smoothed for their three-month and six-month moving-average readings. The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in *Commentary No. 764*), and often are highly volatile month-to-month, as a result. With increasingly-negative, headline financial and economic

reporting and circumstances at hand and ahead, successive negative hits to both the confidence and sentiment readings remain highly likely in the months ahead.

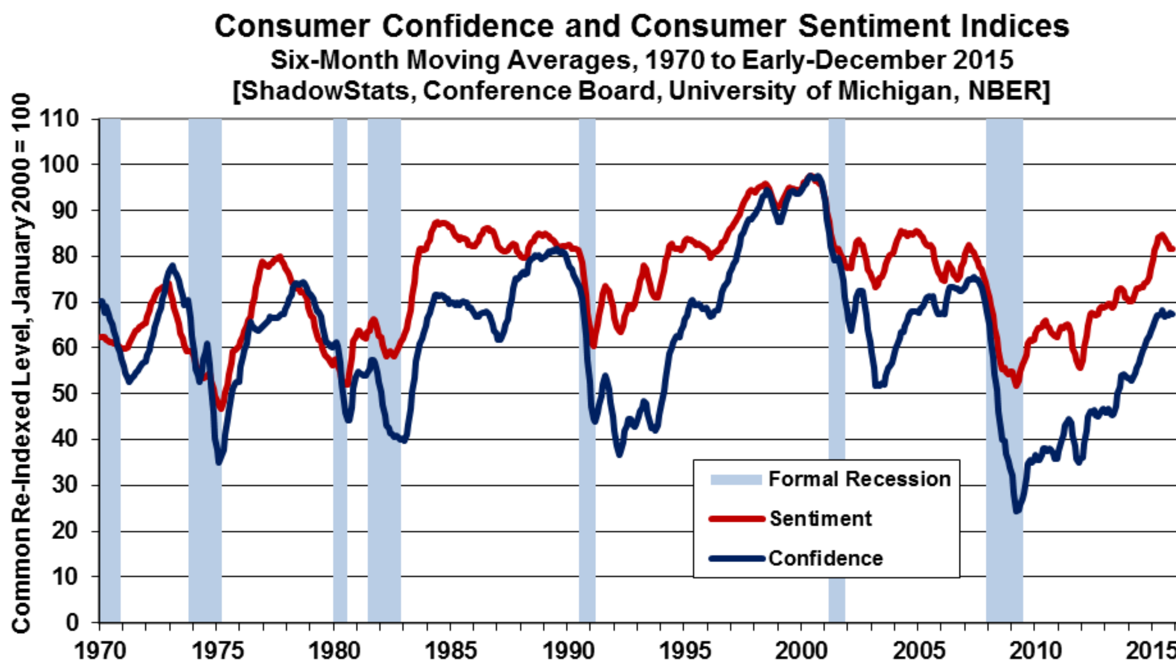
***Graph 11: Consumer Confidence to November 2015***




***Graph 12: Consumer Sentiment to Early-December 2015***




***Graph 13: Comparative Consumer Confidence and Sentiment (6-Month Moving Averages) since 1970***




Smoothed for irregular, short-term volatility, the two series remain at levels seen typically in recessions. Suggested in *Graph 12*—plotted for the last 45 years—the latest readings of Confidence and Sentiment generally have not recovered levels preceding most formal recessions of the last four decades. Broadly, the consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth seen in 2014 and the strong, headline upturn in second-quarter 2015 GDP growth.

The last two graphs in this section address consumer borrowing. Debt expansion can help make up for a shortfall in income growth. Shown in *Graph 14* of *Household Sector, Real Credit Market Debt Outstanding*, household debt declined in the period following the Panic of 2008, and it has not recovered. The third-quarter detail became available with yesterday's (December 10th) release of the Federal Reserve's flow-of-funds accounting for third-quarter 2015.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. Updated through third-quarter 2015, again the graph reflects the most-recent detail available.

The slight upturn seen in the series in the first two quarters of 2015, as also seen with the monthly median household income survey, was due partially to gasoline-price-driven, negative CPI inflation, which continues to impact the system. Nonetheless, third-quarter 2015 real debt outstanding declined minimally, reflecting a sharp slowing in quarterly consumer borrowing. Third-quarter activity also reflected surging student loans, as shown in the *Graph 15*.

Shown through October 2015 reporting, *Graph 15* of monthly Consumer Credit Outstanding is a subcomponent of *Graph 14* on real Household Sector debt, but *Graph 15* is not adjusted for inflation. Post-2008 Panic, outstanding consumer credit has continued to be dominated by growth in federally-held

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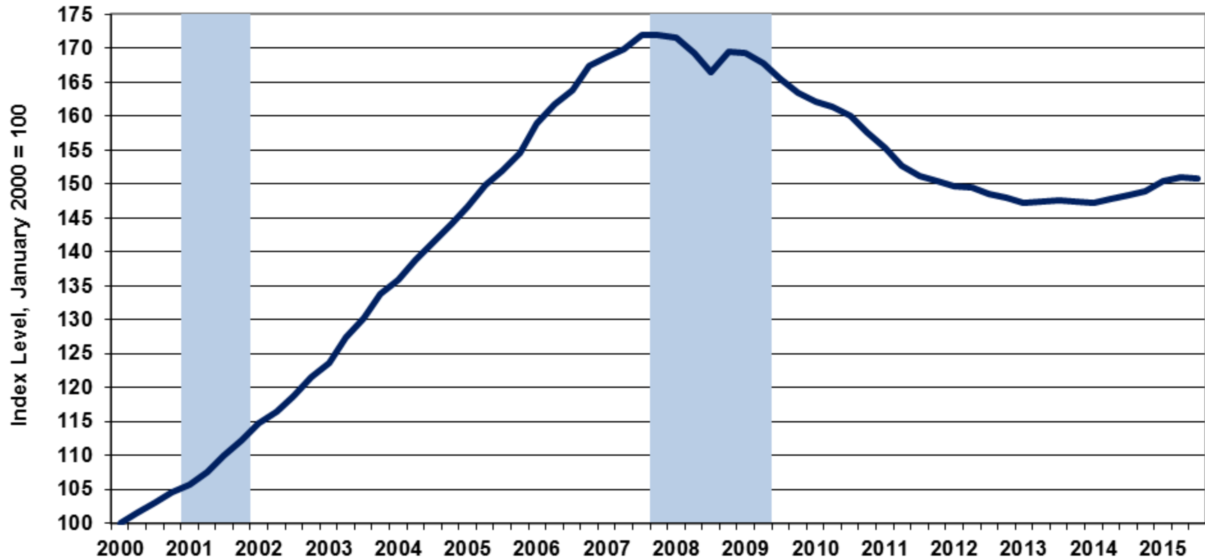
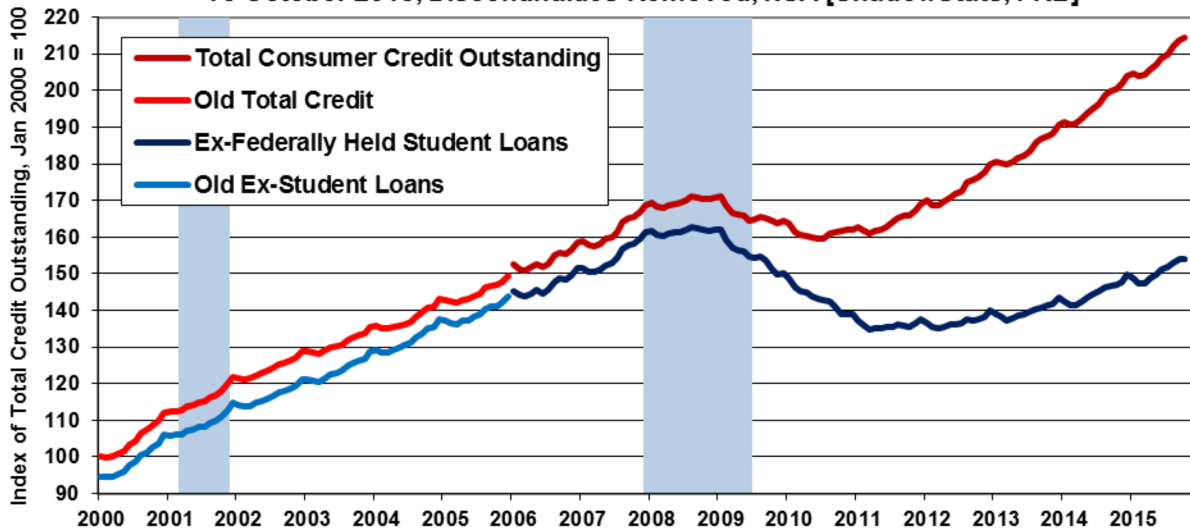
student loans, not in bank loans to consumers that otherwise would fuel broad consumption or housing growth. Although in slow uptrend, the nominal level of Consumer Credit Outstanding (ex-student loans) has not recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis, with October 2015 levels reflecting a broad slowing in the aggregate growth of consumer debt outstanding.

***Graph 14: Household Sector, Real Credit Market Debt Outstanding through Third-Quarter 2015***




***Graph 15: Nominal Consumer Credit Outstanding through October 2015***

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**Producer Price Index (PPI)—November 2015—PPI Rose up by 0.27%, Boosted by Widening Trade Services Margins (Including Falling Gasoline Prices).** The headline monthly increase of 0.27% in November 2015 PPI Final Demand inflation reflected a drop of 0.09% (-0.09%) in Final Demand Goods inflation, plus a gain of 0.45% in the dominant Final Demand Services inflation sector and a minimally-weighted decline of 0.26% (-0.26%) in Final Demand Construction inflation. This reporting was in the context of a pattern of continual upside revisions to prior reporting, as standardly updated for the period five months before to the current headline reporting.

***Consistent, Monthly Upside Revisions to the PPI.*** A pattern of upside revisions to prior reporting has continued, where the Bureau of Labor Statistics (BLS) standardly revises PPI reporting for the fifth month back from the headline detail. The pattern is suggestive of a continual understatement of headline monthly PPI inflation reporting by 0.1 to 0.2 percentage points.

Three months ago, headline monthly April 2015 PPI inflation revised higher by 0.2%. Two months ago, headline monthly reporting for May 2015 PPI inflation revised higher by 0.2%. Last month, headline monthly reporting for June 2015 PPI inflation revised higher by 0.2%. This month, headline monthly reporting for July 2015 PPI inflation revised higher by 0.1%.

***Reporting Contrary to Common Experience Continues.*** In the realm of reporting methodology outside of common experience, according to the BLS, 80% of the increase in headline November PPI inflation was tied to increasing margins in trade services, including rising margins created by—although not dominated this month by—falling costs of fuels and other oil-related products. The BLS might consider just publishing a separate index of margin trends, rather than to mix concepts between the hard costs of physical products and services versus often offsetting-margin movements.

As discussed in *Inflation that Is More Theoretical than Real World?* in the *Reporting Detail*, falling margins usually signal and lead to higher prices (and vice versa) at both wholesale and retail levels and the concept used in the PPI is misleading in its nature as a purported inflation measure, when such activity in margins signals deflation. From a practical standpoint, the aggregate Final Demand Producer Price Index has minimal relationship to real-world activity. Beyond issues of substitution and hedonic-quality-adjustment methodologies (see *Public Commentary on Inflation Measurement*), problems in the goods area have been and remain unstable seasonal factors (particularly as applied to energy), versus shifting market activity. In the services sector—the dominant component of the index, by weighting—inflation, again, is defined in terms of profit margins, not prices, where those margins often—but temporarily—move initially in the opposite direction of related prices, such as "inflationary" rising margins created by falling oil and gasoline prices.

***November 2015 Headline PPI Detail.*** The seasonally-adjusted, month-to-month, headline Producer Price Index (PPI) Final Demand inflation for November 2015 rose by 0.27%, versus unrevised contractions of 0.36% (-0.36%) in October, and 0.54% (-0.54%) in September, and a revised August contraction of 0.09% (-0.09%). The broad impact of seasonal adjustments on the headline PPI reporting largely was positive in November, with the unadjusted monthly November index "unchanged."

On a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year PPI Final Demand inflation contracted by 1.08% (-1.08%) in November 2015, versus unrevised declines of

1.62% (-1.62%) in October 2015, 1.08% (-1.08%) in September 2015, 0.81% (-0.81%) in August 2015 and a revised annual decline of 0.72% (-0.72%) in July 2015.

Again, for the three major subcategories of November 2015 Final Demand PPI, headline monthly Goods inflation fell by 0.09% (-0.09%), Services inflation fell rose by 0.45%, and Construction inflation fell by 0.26% (-0.26%) for the month.

Final Demand Goods (Weighted at 34.67%). Running somewhat in parallel with the old Finished Goods PPI series, headline month-to-month Final Demand Goods inflation dropped by 0.09% (-0.09%) in November 2015, versus a decline of 0.37% (-0.37%) in October. There was positive impact on the aggregate headline November reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, November Final Demand Goods inflation fell by 0.37% (-0.37%) for the month.

Unadjusted, year-to-year goods inflation was down by 4.27% (-4.27%) in November 2015, versus an annual contraction of 4.84% (-4.84%) in October 2015.

Headline seasonally-adjusted monthly changes by major components of the November 2015 Final Demand Goods:

- "Foods" inflation rose month-to-month by 0.26% in November 2015, following a headline decline of 0.76% (-0.76%) in October, with seasonal adjustments neutral a factor for the November monthly gain. Unadjusted and year-to-year, annual November 2015 foods inflation declined by 3.92% (-3.92%), versus a decline of 4.25% (-4.25%) in October 2015.
- "Energy" inflation declined by 0.63% (-0.63%) in November 2015, following an "unchanged" reading in October, with the November reading boosted by seasonal adjustments. Unadjusted, monthly November energy inflation fell by 1.70% (-1.70%). Unadjusted and year-to-year, the annual contraction in energy prices narrowed to 18.96% (-18.96%) in November 2015, from an annual decline of 21.49% (-21.49%) in October 2015.
- "Less foods and energy" ("Core" goods) monthly inflation fell by 0.09% (-0.09%) in November 2015, versus a contraction of 0.27% (-0.27%) in October. Seasonal adjustments were positive for monthly core inflation, with an unadjusted decline of 0.18% (-0.18%) in November. Unadjusted and year-to-year, November 2015 core inflation showed a contraction of 0.09% (-0.09%), versus a similar contraction of 0.09% (-0.09%) in October 2015.

Final Demand Services (Weighted at 63.31% of the Aggregate). Headline monthly Final Demand Services inflation rose by 0.45% in November 2015, versus a decline of 0.27% (-0.27%) in October. The overall seasonal-adjustment impact on headline November services inflation was positive, with an unadjusted monthly November gain of 0.18%. Year-to-year, unadjusted November 2015 services inflation was 0.55%, versus an annual gain of 0.09% in October 2015.

The headline monthly changes by major component for November 2015 Final Demand Services inflation:

- "Services less trade, transportation and warehousing" inflation, or the "Other" category, showed positive monthly inflation of 0.09% in November 2015, versus negative monthly inflation of 0.09% (-0.09%) in October. Seasonal-adjustment impact on the adjusted November detail was positive, where the unadjusted monthly change was "unchanged." Unadjusted and year-to-year,

November 2015 "other" services inflation was 0.83%, the same level as the annual gain of 0.83% in October 2015.

- "Transportation and warehousing" inflation rose month-to-month by 0.35% in November 2015, having gained 0.09% in October. Seasonal adjustments had positive impact on the headline November number, where the unadjusted monthly reading contracted by 0.09% (-0.09%). Unadjusted and year-to-year, November 2015 transportation inflation fell by 2.82% (-2.82%), versus an annual contraction 2.90% (-2.90%) in October 2015.
- "Trade" inflation rose by 1.17% month-to-month in November 2015, having declined month-to-month by 0.71% (-0.71%) in October. Seasonal adjustments had a positive impact here, where unadjusted monthly inflation rose by 0.81% in November. Unadjusted and year-to-year, November 2015 trade inflation rose by 0.99%, having declined by 0.71% (-0.71%) in October 2015.

Final Demand Construction (Weighted at 2.02% of the Aggregate). Although a fully self-contained subsection of the Final Demand PPI, Final Demand Construction inflation receives no formal headline coverage. Nonetheless, headline numbers are published, and month-to-month construction inflation declined by 0.26% (-0.26%) in November 2015, having gained 0.97% in October. The impact of seasonal factors on the November reading was neutral. On an unadjusted basis, month-to-month November construction inflation also was a contraction of 0.26% (-0.26%).

On an unadjusted basis, year-to-year construction inflation was 2.06% in November 2015, versus 2.33% in October 2015.

- "Construction for private capital investment" headline monthly inflation in November 2015 was a contraction of 0.35% (-0.35%), following a gain of 0.98% in October. As usual, seasonal adjustments also had neutral impact here, where the unadjusted monthly inflation was a decline of 0.35% (-0.35%) in November. Unadjusted and year-to-year, November 2015 private construction inflation was a positive 1.98%, but down versus 2.25% in October 2015.

- "Construction for government" inflation declined by 0.09% (-0.09%) in November 2015, versus a monthly gain of 0.97% in October 2015. Seasonal adjustments had negative impact, where unadjusted monthly November inflation was "unchanged." Unadjusted and year-to-year, November 2015 government construction inflation was 2.06%, versus 2.15% in October 2015.

Discussed in prior *Commentary No. 771*, ShadowStats uses the Final Demand Construction index for deflating headline activity in the monthly construction-spending series. The January 4th release of November 2015 U.S. Construction Spending will be covered in ShadowStats *Commentary No. 778* of January 6th.

***PPI-Inflation Impact on Pending Reporting of New Orders for Durable Goods.*** As to the upcoming reporting of November 2015 new orders for durable goods, unadjusted monthly inflation for new orders for manufactured durable goods fell by 0.18% (-0.18%) in November 2015, having gained 0.12% in October. The decline in annual inflation deepened, down by 0.90% (-0.90%) in November 2015, versus an annual decline of 0.78% (-0.78%) in October 2015. November 2015 durable goods orders will be reported on December 23rd and covered in ShadowStats *Commentary No. 776* of that date.

***[The* Reporting Detail *section includes further material on November Retail Sales and PPI.]***

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## HYPERINFLATION WATCH

**HYPERINFLATION OUTLOOK SUMMARY.** In the process of being updated for the latest economic, Federal Reserve and global-political developments, the revised *Hyperinflation Outlook Summary* has been pushed back until after the FOMC meeting. Such reflects the number and nature of issues covered in today's *Commentary*, and considers what may be rapidly unfolding developments in the week ahead. The broad outlook has not changed. If there are intervening developments that require immediate comment, a *Flash Commentary* will follow. In the interim, the latest *Summary Outlook* (November 4, 2015-based) is available here: *Commentary No. 768*.

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## REPORTING DETAIL

### RETAIL SALES (November 2015)

**Headline Monthly Gain of 0.2% in November Retail Sales Reflected No More than Shifting and Inconsistent Seasonal Adjustment Factors.** The headline monthly gain of 0.2% in nominal Retail Sales for November 2015 likely was not much greater than the rate of inflation, and it was accounted for by inconsistent and non-comparable shifts in the published seasonally-adjusted data. The headline detail was the first from a new sampling of data, which purportedly was comparable on a month-to-month and year-to-year basis with the prior surveying, but virtually no detail is available on the impact of the sampling changes.

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Separately, annual growth slowed sharply, which should translate into an intensified recession signal, net of likely headline November 2015 annual CPI-U inflation. In nominal terms, year-to-year change in sales narrowed to 1.4% in November 2015, versus 1.7% in October 2015. In inflation-adjusted real terms, that would be reflected in annual sales dropping below 1.0% in November, from 1.6% in October, where a recession signal is generated when annual real retail sales growth falls below 2.0%.

Selective prior-year revisions (reporting of only October and November 2014) had the effect of distorting and boosting the headline November 2015 monthly retail sales gain. Following on top of a similar distortion in last month's headline October 2015 reporting, a relative upside revision of 0.2% to November 2014 monthly activity, generated a positive swing in relative November 2015 seasonal adjustments of 0.2%. That had the effect of turning otherwise "unchanged" headline November 2015 monthly sales to a headline monthly gain of 0.2% (see explanation in *Seasonal-Factor Distortions and Other Reporting Instabilities*).

***Structural Liquidity Issues Constrain Consumer Economic Activity.*** Discussed and fully updated in the *Opening Comments*, the primary underlying issues restraining current retail sales activity remains intense, structural-liquidity woes besetting the consumer. That circumstance—in the last seven-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity.

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

***Nominal (Not-Adjusted-for-Inflation) Retail Sales—November 2015.*** In the context of a downside revisions to headline September and October 2015 retail sales and boosted by the implied seasonal-factor shifts from an upside revision to November 2014 activity, November 2015 headline nominal sales jumped by 0.2%, at the first decimal point, as reported by the Census Bureau this morning (December 11th). The beginning of the holiday shopping season and the second largest shopping month of the year, November's headline activity came in below expectations, with slowing annual growth, and despite a gimmicked headline gain.

At the second decimal point, November 2015 retail sales showed a statistically-insignificant, seasonally-adjusted gain of 0.22% +/- 0.59% (this and all other confidence intervals are expressed at the 95% level). Net of prior-period revisions, nominal November retail sales gained 0.20% month-to-month.

Such followed a statistically-insignificant, revised monthly gain of 0.06% +/- 0.23% [previously up by 0.05% in October], and a revised monthly September decline of 0.06% (-0.06%) [previously down by 0.02% (-0.02%), initially up by 0.10%].

***Year-to-Year Annual Change.*** Year-to-year nominal change in November 2015 retail sales was a statistically-significant increase of 1.35% +/- 0.82%, versus a revised 1.68% [previously 1.69%] gain in October 2015, and a downwardly-revised 2.16% [previously 2.20%, initially 2.36%] annual gain in September 2015.

***Annualized Quarterly Changes.*** With November headline reporting, the pace of annualized nominal retail sales decline in first-quarter 2015 deepened to a contraction of 4.40% (-4.40%) [previously down by 4.23% (-4.23%), initially down by 4.04% (-4.04%)], the worst quarter-to-quarter showing since the economic collapse, with annualized second-quarter 2015 retail sales growth unrevised at a gain of 6.81%, and annualized third-quarter 2015 growth at a revised 4.51% [previously 4.57%, initially 4.80%] annualized gain. Based solely on October and November's reporting, annualized fourth-quarter 2015 growth is on track for an annualized nominal gain of 0.53%. Based solely on initial October reporting, annualized fourth-quarter 2015 growth was on track for a nominal gain of 0.15%.

Net of inflation, the annualized pace of contraction in first-quarter 2015 real retail sales deepened to 1.39% (-1.39%) [previously down by 1.21% (-1.21%), initially down by 1.02% (-1.02%)]. The quarterly change in second-quarter real retail sales held at an unrevised gain of 3.72%. Third-quarter detail revised lower to 2.89% [previously 2.94%, initially 3.17%] annualized gain. The developing fourth-quarter trend will be assessed in the CPI-U *Commentary*, where headline, real quarterly growth could be negative, as estimated initially based on headline October data. Adjusted for realistic inflation (see *Commentary No. 767* and *No. 742 Special Commentary: A World Increasingly Out of Balance*), real retail sales and the broad economy never truly recovered from the economic collapse into 2008 and 2009.

***November Core Retail Sales—Core Sales Growth.*** Reflecting an environment that still should be seeing rising food prices but a seasonally-adjusted decline [an unadjusted 5.32% (-5.32%) drop] in gasoline prices [Department of Energy], seasonally-adjusted monthly grocery-store sales were up by 0.80% in November 2015, with gasoline-station sales down by 0.82% (-0.82%) for the month.

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

Version I: November 2015 versus October 2015 seasonally-adjusted retail sales series—net of total grocery store and gasoline station sales—reflected a monthly gain of 0.24%, versus the official headline aggregate sales increase of 0.22%.

Version II: November 2015 versus October 2015 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—reflected a monthly gain of 0.20%, versus the official headline aggregate sales increase of 0.22%.

***Real (Inflation-Adjusted) Retail Sales—November 2015.*** The nominal gain of 0.22% in November 2015 retail sales was before accounting for inflation. The monthly change in real retail sales for November will be published along with the headline estimate of the CPI-U consumer inflation for November 2015, in *Commentary No. 773* of Tuesday, December 15th. Barring a negative surprise to what likely will be a slightly positive headline move in the November CPI-U, the headline monthly change in real November retail sales likely will be slightly positive-to-unchanged, with annual real retail sales growth likely to fall sharply from the current 1.55%, to below 1.0%, generating a greatly intensified recession signal (see the *Week Ahead* section).

***Seasonal-Factor Distortions and Other Reporting Instabilities.*** Without the inconsistent shifting in seasonal factors, the November 2015 headline change would have been "unchanged" instead of the 0.2% gain.

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

The adjustment issues here are the same as with the employment and unemployment series. The reporting fraud is not in the use of concurrent seasonal-factor adjustments *per se*, but rather in the Census Bureau's not publishing fully-consistent, historical data each month. As is the common pattern in all the headline monthly reporting for the retail series, the year-ago numbers of October 2014 and November 2014 were revised, along with the publication of the November 2015 data and revised detail on September 2015 and August 2015. In today's headline detail, the year-ago revisions simply were junk reporting, due solely to shifts in their seasonal adjustments that resulted from the unique calculations of the seasonal factors that generated the headline November 2015 detail. The revisions were not due to the availability of any new historical data back in 2014, but due rather to just the inconsistent shifts in the published versus unpublished seasonal adjustments. Only the new headline levels for October and November 2014 and for September and October 2015 were published on a basis consistent with the November 2015 number.

Specifically, the level of October 2014 revised lower by 0.02% (-0.02%), having revised higher last month by 0.15%. November 2014, however, revised higher by 0.16%, suggestive of positive shift in November 2015 seasonals, from where they were implied to be last month and from what they likely would have been closer to in the old fixed-seasonal adjustment system.

As in reporting of the prior year, and again in the headline November 2015 data, the year-ago number most commonly has revised higher each month, with the effect—desired or otherwise—of boosting the seasonal adjustments for the headline month, minimizing the reporting of headline monthly contractions or maximizing the headline gains. Instead of November 2015 sales being up by 0.22%, they would have been up by 0.04% or "unchanged" at the headline first-decimal point, but for the inconsistent seasonal shifts in the published historical data. All this happens without the specifics as to where headline activity has been shifted month-to-month. Full detail is available internally to the Census Bureau, but the Bureau chooses not to publish the detail.

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

## PRODUCER PRICE INDEX (November 2015)

**November PPI Rose by 0.27%, Boosted by Widening Trade Services Margins (Including Falling Gasoline Prices).** The headline monthly increase of 0.27% in November 2015 PPI Final Demand

inflation reflected a drop of 0.09% (-0.09%) in Final Demand Goods inflation, plus a gain of 0.45% in the dominant Final Demand Services inflation sector and a minimally-weighted decline of 0.26% (-0.26%) in Final Demand Construction inflation. This reporting was in the context of a pattern of continual upside revisions to prior reporting, as standardly updated for the period five months before to the current headline reporting.

***Consistent, Monthly Upside Revisions to the PPI.*** A pattern of upside revisions to prior reporting has continued, where the Bureau of Labor Statistics (BLS) standardly revises PPI reporting for the fifth month back from the headline detail. Three months ago, headline monthly April 2015 PPI inflation revised higher by 0.2%, down by 0.1% (-0.1%) month-to-month, having been down previously in initial reporting by 0.3% (-0.3%). Two months ago, headline monthly reporting for May 2015 PPI inflation revised higher by 0.2%, now up by 0.6%, having been up previously by 0.4%. Last month, headline monthly reporting for June 2015 PPI inflation also revised higher by 0.2%, now up by 0.4%, having been up previously by 0.2%. This month, headline monthly reporting for July 2015 PPI inflation revised higher by 0.1%, now up by 0.1%, having been "unchanged" previously.

***Reporting Contrary to Common Experience Continues.*** In the realm of reporting methodology outside of common experience, according to the BLS, 80% of the increase in headline November PPI inflation was tied to increasing margins in trade services, including rising margins created by—although not dominated this month by—falling costs of fuels and other oil-related products. The BLS might consider just publishing a separate index of margin trends, rather than to mix concepts between the hard costs of physical products and services versus often offsetting-margin movements.

As discussed in *Inflation that Is More Theoretical than Real World?*, falling margins usually signal and lead to higher prices (and vice versa) at both wholesale and retail levels and the concept used in the PPI is misleading in its nature as a purported inflation measure, when such activity in margins signals deflation. From a practical standpoint, the aggregate Final Demand Producer Price Index has minimal relationship to real-world activity. Beyond issues of substitution and hedonic-quality-adjustment methodologies (see *Public Commentary on Inflation Measurement*), problems in the goods area have been and remain unstable seasonal factors (particularly as applied to energy), versus shifting market activity. In the services sector—the dominant component of the index, by weighting—inflation, again, is defined in terms of profit margins, not prices, where those margins often—but temporarily—move initially in the opposite direction of related prices, such as "inflationary" rising margins created by falling oil and gasoline prices.

***Inflation that Is More Theoretical than Real World?*** *[This background text is as published previously.]* Effective with January 2014 reporting, a new Producer Price Index (PPI) replaced what had been the traditional headline monthly measure of wholesale inflation in Finished Goods (see *Commentary No. 591*). In the new headline monthly measure of wholesale Final Demand, Final Demand Goods basically is the old Finished Goods series, albeit expanded.

The new and otherwise dominant Final Demand Services sector largely reflects problematic and questionable surveying of intermediate or quasi-wholesale profit margins in the services area. To the extent that profit margins shrink in the services sector, one could argue that the resulting lowered estimation of inflation actually is a precursor to higher inflation, as firms subsequently would move to raise prices, in an effort to regain more-normal margins. In like manner, in the circumstance of "increased" margins—due to the lower cost of petroleum-related products not being passed along immediately to customers—competitive pressures to lower margins would tend to be reflected eventually

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in reduced retail prices (CPI). The oil-price versus margin gimmick works both way. In times of rapidly rising oil prices, it mutes the increase in Final Demand inflation, in times of rapidly declining oil prices; it tends to mute the decline in Final Demand inflation.

The new PPI series remains an interesting concept, but it appears limited as to its aggregate predictive ability versus general consumer inflation. Further, there is not enough history available on the new series (just six years of post-2008-panic data) to establish any meaningful relationship to general inflation or other economic or financial series.

***November 2015 Headline PPI Detail.*** The Bureau of Labor Statistics (BLS) reported this morning, December 11th, that the seasonally-adjusted, month-to-month, headline Producer Price Index (PPI) Final Demand inflation for November 2015 rose by 0.27%, versus unrevised contractions of 0.36% (-0.36%) in October, and 0.54% (-0.54%) in September, and a revised August contraction of 0.09% (-0.09%) [previously "unchanged"].

The broad impact of seasonal adjustments on the headline PPI reporting largely was positive in November, with the unadjusted monthly November index "unchanged."

On a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year PPI Final Demand inflation contracted by 1.08% (-1.08%) in November 2015, versus unrevised declines of 1.62% (-1.62%) in October 2015, 1.08% (-1.08%) in September 2015, 0.81% (-0.81%) in August 2015 and a revised annual decline of 0.72% (-0.72%) [previously down by 0.81% (-0.81%)] in July 2015.

For the three major subcategories of November 2015 Final Demand PPI, headline monthly Goods inflation fell by 0.09% (-0.09%), Services inflation fell rose by 0.45%, and Construction inflation fell by 0.26% (-0.26%) for the month.

Final Demand Goods (Weighted at 34.67%). Running somewhat in parallel with the old Finished Goods PPI series, headline month-to-month Final Demand Goods inflation dropped by 0.09% (-0.09%) in November 2015, versus a decline of 0.37% (-0.37%) in October. There was positive impact on the aggregate headline November reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, November Final Demand Goods inflation fell by 0.37% (-0.37%) for the month.

Unadjusted, year-to-year goods inflation was down by 4.27% (-4.27%) in November 2015, versus an annual contraction of 4.84% (-4.84%) in October 2015.

Headline seasonally-adjusted monthly changes by major components of the November 2015 Final Demand Goods:

- "Foods" inflation rose month-to-month by 0.26% in November 2015, following a headline decline of 0.76% (-0.76%) in October, with seasonal adjustments neutral a factor for the November monthly gain. Unadjusted and year-to-year, annual November 2015 foods inflation declined by 3.92% (-3.92%), versus a decline of 4.25% (-4.25%) in October 2015.
- "Energy" inflation declined by 0.63% (-0.63%) in November 2015, following an "unchanged" reading in October, with the November reading boosted by seasonal adjustments. Unadjusted, monthly November energy inflation fell by 1.70% (-1.70%). Unadjusted and year-to-year, the

annual contraction in energy prices narrowed to 18.96% (-18.96%) in November 2015, from an annual decline of 21.49% (-21.49%) in October 2015.

- "Less foods and energy" ("Core" goods) monthly inflation fell by 0.09% (-0.09%) in November 2015, versus a contraction of 0.27% (-0.27%) in October. Seasonal adjustments were positive for monthly core inflation, with an unadjusted decline of 0.18% (-0.18%) in November. Unadjusted and year-to-year, November 2015 core inflation showed a contraction of 0.09% (-0.09%), versus a contraction of 0.09% (-0.09%) in October 2015.

Final Demand Services (Weighted at 63.31% of the Aggregate). Headline monthly Final Demand Services inflation rose by 0.45% in November 2015, versus a decline of 0.27% (-0.27%) in October. The overall seasonal-adjustment impact on headline November services inflation was positive, with an unadjusted monthly November gain of 0.18%. Year-to-year, unadjusted November 2015 services inflation was 0.55%, versus an annual gain of 0.09% in October 2015.

The headline monthly changes by major component for November 2015 Final Demand Services inflation:

- "Services less trade, transportation and warehousing" inflation, or the "Other" category, showed positive monthly inflation of 0.09% in November 2015, versus negative monthly inflation of 0.09% (-0.09%) in October. Seasonal-adjustment impact on the adjusted November detail was positive, where the unadjusted monthly change was "unchanged." Unadjusted and year-to-year, November 2015 "other" services inflation was 0.83%, the same level as the annual gain of 0.83% in October 2015.
- "Transportation and warehousing" inflation rose month-to-month by 0.35% in November 2015, having gained 0.09% in October. Seasonal adjustments had positive impact on the headline November number, where the unadjusted monthly reading contracted by 0.09% (-0.09%). Unadjusted and year-to-year, November 2015 transportation inflation fell by 2.82% (-2.82%), versus an annual contraction 2.90% (-2.90%) in October 2015.
- "Trade" inflation rose by 1.17% month-to-month in November 2015, having declined month-to-month by 0.71% (-0.71%) in October. Seasonal adjustments had a positive impact here, where unadjusted monthly inflation rose by 0.81% in November. Unadjusted and year-to-year, November 2015 trade inflation rose by 0.99%, having declined by 0.71% (-0.71%) in October 2015.

Final Demand Construction (Weighted at 2.02% of the Aggregate). Although a fully self-contained subsection of the Final Demand PPI, Final Demand Construction inflation receives no formal headline coverage. Nonetheless, headline numbers are published, and month-to-month construction inflation declined by 0.26% (-0.26%) in November 2015, having gained 0.97% in October. The impact of seasonal factors on the November reading was neutral. On an unadjusted basis, month-to-month November construction inflation also was a contraction of 0.26% (-0.26%).

On an unadjusted basis, year-to-year construction inflation was 2.06% in November 2015, versus 2.33% in October 2015.

- "Construction for private capital investment" headline monthly inflation in November 2015 was a contraction of 0.35% (-0.35%), following a gain of 0.98% in October. As usual, seasonal adjustments also had neutral impact here, where the unadjusted monthly inflation was a decline of

0.35% (-0.35%) in November. Unadjusted and year-to-year, November 2015 private construction inflation was 1.98%, down versus 2.25% in October 2015.

- "Construction for government" inflation declined by 0.09% (-0.09%) in November 2015, versus a monthly gain of 0.97% in October 2015. Seasonal adjustments had negative impact, where unadjusted monthly November inflation was "unchanged." Unadjusted and year-to-year, November 2015 government construction inflation was 2.06%, versus 2.15% in October 2015.

Discussed in prior *Commentary No. 771*, ShadowStats uses the Final Demand Construction index for deflating headline activity in the monthly construction-spending series. The January 4th release of November 2015 U.S. Construction Spending will be covered in ShadowStats *Commentary No. 778* of January 6th.

***PPI-Inflation Impact on Pending Reporting of New Orders for Durable Goods.*** As to the upcoming reporting of November 2015 new orders for durable goods, unadjusted monthly inflation for new orders for manufactured durable goods fell by 0.18% (-0.18%) in November 2015, having gained 0.12% in October. The decline in annual inflation deepened, down by 0.90% (-0.90%) in November 2015, versus an annual decline of 0.78% (-0.78%) in October 2015. November 2015 durable goods orders will be reported on December 23rd and covered in ShadowStats *Commentary No. 776* of that date.

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## WEEK AHEAD

**Economic Reporting Generally Should Trend Much Weaker than Expected; Inflation Will Rise Anew, Along with a Renewed Rebound in Oil Prices.** Still in a fluctuating, 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 exceeding any potential, underlying economic reality. Where the net trend continues towards weakening expectations, movement towards recession recognition remains at something of an accelerating pace.

Headline reporting of the regular monthly economic numbers increasingly should continue to 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. That includes the December 22nd second revision to third-quarter 2015 GDP, and intensifying early signals of a headline contraction in fourth-quarter 2015 GDP, due for release on January 29, 2016.

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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 despite some further negative gasoline-price impact month-to-month on headline inflation for the November CPI-U, a further upside notch or two for November year-to-year inflation remains likely.

Significant 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*, and *No. 692 Special Commentary: 2015 - A World Out of Balance* and in the *Hyperinflation Outlook Summary* of *Commentary No. 768*.

***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*).

The also has suspended reporting of key earnings data from the period of economic collapse, due to reporting errors. More will follow there, along with the indicated downside benchmark revisions to 2015 payroll employment on February 5, 2016.

***PENDING RELEASES:***

**Consumer Price Index—CPI (November 2015).** The Bureau of Labor Statistics (BLS) plans to release the November 2015 CPI on Tuesday, December 15th. The headline November CPI-U should be on the plus-side of flat, perhaps up by 0.1%, reflecting a decline in unadjusted gasoline prices, muted by seasonal adjustments, and likely more than offset otherwise by non-energy inflation.

Even so, given the sharp decline in headline November 2014 CPI-U, the year-to-year annual inflation rate likely will move higher, from roughly 0.2% to 0.5%, or more. Market outlook for the headline November CPI-U appears likely to settle around flat, which is not an unreasonable expectation.

Average gasoline prices moved lower in November 2015, by 5.32% (-5.32%) for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). Where BLS seasonal adjustments to gasoline prices in November traditionally are sharply on the plus-side, they will not be enough to turn adjusted gasoline prices higher, leaving a likely net-negative contribution of about 0.14% (-0.14%) to the aggregate monthly headline CPI-U change. Higher food and "core" (net of food and energy) inflation largely should offset the adjusted, negative contribution from gasoline prices, pushing the headline CPI-U up to an aggregate flat-to-plus 0.1% reading for the month.

***Annual Inflation Rate*.** Year-to-year, CPI-U inflation would increase or decrease in November 2015 reporting, dependent on the seasonally-adjusted monthly change, versus the adjusted, headline contraction 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, depending on rounding. Such would be the highest, headline CPI-U headline annual inflation rate since 0.76% in December 2014.

**Updated—Real Retail Sales (November 2015).** Based on today's (December 11th) release of a headline monthly gain of 0.22% in November 2015 nominal (not-adjusted-for-inflation) Retail Sales (see the *Opening Comments* and *Reporting Detail*), the estimate of real (inflation-adjusted) Retail Sales for November will follow in ShadowStats *Commentary No. 773* of December 15th, in conjunction with the publication of detail on the headline November CPI-U.

With a fair chance for a flat-to-minimally-positive headline monthly gain in November CPI-U inflation, discussed in the CPI outlook, there is a parallel chance for real growth in November sales to be minimally weaker than the headline nominal sales activity. That would be slightly positive-to-flat monthly retail sales growth, net of the headline inflation rate.

The pace of annual CPI-U inflation, however, should increase sharply, intensifying the recession signal currently generated by the unusually-low year-to-year growth retail sales, adjusted for inflation. Where annual real sales growth below 2.0% traditionally signals pending recession, the annual real gain likely will fall sharply from the current 1.6%, to below 1.0%, generating a greatly intensified recession signal

Constraining retail sales activity, the consumer remains in an extreme liquidity bind with weakening confidence, as fully updated and discussed broadly in the review of *Consumer Liquidity Conditions* found in the *Opening Comments.*

**Index of Industrial Production (November 2015).** On Wednesday, December 16th, the Federal Reserve Board will release its estimate of the Index of Industrial Production for November 2015. Headline reporting detail remains a good bet to come in below what likely will be a minimally-negative

consensus, along with continuing downside revisions to prior-period reporting. An unlikely, monthly gain of 0.55% (net of revisions) would be needed in order for headline November 2015 production not to turn negative, year-to-year, for the first time since the economic collapse (see the opening paragraphs in the *Opening Comments*).

As one of the traditional markers of the onset of formal recession, a continued downtrend in these numbers should intensify further the shift in consensus expectations towards renewed economic contraction. Headline production detail should be suggestive of some downside revision to third-quarter 2015 GDP in the December 22nd third estimate, as well as indicative of an intensifying outlook for a fourth-quarter 2015 GDP contraction, on both an annual and quarter-to-quarter basis.

**Residential Construction—Housing Starts (November 2015).** The Census Bureau will release November 2015 residential construction detail also on Wednesday, December 16th. In line with common-reporting experience of recent years, monthly results are likely to be unstable and not statistically meaningful, holding in a general pattern of down-trending stagnation. Wherever consensus expectations settle, they also likely will not be statistically significant.

Irrespective of the generally meaningless headline detail, the broad pattern of housing starts should remain consistent with the low-level, albeit slightly up-trending, stagnation, seen in the series at present, where current activity still is down by about 53% from its pre-recession high. Such is particularly evident with the detail viewed in the context of a six-month moving average. This series also is subject to regular and extremely-large, prior-period revisions.

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

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