

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

**COMMENTARY NUMBER 781**  
**GDP, December CPI, Real Retail Sales and Earnings, Housing Starts**  
**January 21, 2016**

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**Fourth-Quarter GDP Remains Good Bet for Quarterly Contraction,  
Although Not Likely Until the First Revision**

**Fourth-Quarter Real Retail Sales Flattened Out;  
Annual Growth Continued to Signal Recession**

**Fourth-Quarter Housing Starts Turned Down Quarter-to-Quarter**

**December Gains in Average Weekly Earnings Were Minimal, with  
Real Growth Boosted by Negative Monthly Inflation**

**December Annual Inflation Increased Across the Board:  
CPI-U at 0.7%, CPI-W at 0.4%, ShadowStats at 8.4%**

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*PLEASE NOTE: The next regular Commentary, scheduled for Thursday, January 28th, will cover December New Orders for Durable Goods and Existing- and New-Home Sales. A Commentary on Friday, January 29th, will cover the first or “advance” estimate of fourth-quarter 2015 GDP.*

*Best wishes to all — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Signals for a Fourth-Quarter GDP Contraction Intensify.** Indications already in place for an inflation-adjusted, real contraction in fourth-quarter 2015 GDP, include two months of deteriorating trade-deficit detail ([Commentary No. 778](#)), full-quarter collapsing annual and quarterly industrial production ([Commentary No. 780](#)), and annual and quarterly contractions in real corporate revenues through the third-quarter 2015 ([No. 777 Year-End Special Commentary](#)).

Reporting yesterday (January 20th) confirmed tumbling fourth-quarter activity. Discussed in today's (January 21st) *Commentary*, real retail sales activity turned virtually flat for fourth-quarter 2015, up at an annualized pace of 0.5%, which slowed from 2.9% annualized third-quarter 2015 growth. Year-to-year annual growth for fourth-quarter 2015 also slowed to 1.4%, from an annual gain of 2.1% in third-quarter 2015. In normal economic times, annual real growth at or below 2.0% signals an imminent or concurrent recession. Further, fourth-quarter 2015 housing starts contracted at an annualized pace of 8.5% (-8.5%), having shown a negligible 0.2% annualized pace of growth in third-quarter 2015.

The “advance” or first-estimate of fourth-quarter 2015 GDP will be published on Friday, January 29th by the Bureau of Economic Analysis (BEA), but history has shown that the BEA is loath to publish a headline quarterly GDP contraction, when the consensus outlook still is positive. Where the [Atlanta Fed](#) GDP model currently estimates BEA initial reporting of positive 0.7% annualized, real fourth-quarter GDP growth, the outlook for the consensus still appears to be holding above 1.0%.

While the consensus could turn negative in the week ahead, such is not likely. Yet, with the underlying numbers so weak, the BEA likely will publish headline growth that is positive, but still well below consensus. Both the consensus numbers and the BEA reporting then likely would turn negative in the second estimate (February 26th), in a pattern similar to that seen with first-quarter 2015 GDP. Initial reporting of the first-quarter GDP was a gain of 0.2%, then down by 0.7% (-0.7%) in the first revision.

Given the unstable and generally weak, economic activity of the prior year, formal recession recognition (timed from December 2014) likely will follow in the wake of the eventual announcement of the headline contraction in fourth-quarter 2015 GDP. Conceivably, though, formal recession recognition could be delayed until after the July 29th GDP benchmark revisions (see the *Week Ahead* section).

**Today's *Commentary* (January 21st).** The balance of these *Opening Comments* provides summary coverage of December Consumer Price Index (CPI), Real Retail Sales and Earnings and Housing Starts.

The *Hyperinflation Watch* includes the U.S. dollar- and gold-related graphs that usually accompany the monthly CPI *Commentaries*. Given unanticipated delays in putting out today's *Commentary* (it had been planned for yesterday, January 20th), the reformatted *Hyperinflation Outlook Summary* has been pushed to the next *Commentary No. 782* (the full update is available at [No. 777 Year-End Special Commentary](#)). Thereafter, the *Summary* and regular updates will be handled as a link in the weekly *Commentaries*. Such will save roughly ten pages of often-repetitive material in subsequent physical missives.

The *Week Ahead* previews pending releases of December Existing- and New Home Sales, New Orders for Durable Goods and next Friday's (January 29th) "advance" or first-estimate of fourth-quarter 2015 Gross Domestic Product (GDP), also discussed in the opening paragraphs of these *Opening Comments*.

**Consumer Price Index (CPI)—December 2015—Rebounding Annual Inflation Continued to Reflect Year-Ago Distortions.** Despite a further decline in gasoline prices, with positive seasonal adjustments inadequate to push the energy-inflation or sector into the plus-column, and with negative seasonal adjustments intensifying the impact of declining food prices, headline monthly consumer inflation CPI-U fell by 0.11% (-0.11%) in December 2015. Still, unadjusted annual inflation jumped to 0.73%, from 0.50% in November 2015, the strongest annual inflation showing since a 0.76% gain in December 2014. In an environment of relatively less-severe declines in gasoline prices, the jump in annual December inflation again partially reflected the relatively-more-severe hit that headline inflation took a year ago.

Where subsequent January 2016 gasoline prices have fallen further versus December 2015, negative seasonal factors and year-ago reporting conditions should combine in January to push headline monthly CPI-U lower, but also to leave year-to-year January 2016 inflation still in positive territory. All this is subject to next month's annual revisions to seasonally-adjusted CPI data, and also to likely BLS intervention analysis on gasoline-price seasonal adjustments. Such interventions can alter the monthly seasonal-adjustment patterns for extreme and unusual monthly price variations.

Against the particularly-weak headline CPI-U showing of a year ago, the headline upturn in annual December 2015 inflation also was despite a continuing rally in the U.S. dollar and ongoing related manipulations by the Federal Reserve and other central banks. The annual inflation upturn in the CPI-U also was mirrored in the CPI-W and the C-CPI-U, with both those series moving more strongly into positive annual-inflation territory.

**CPI-U.** Headline, seasonally-adjusted December 2015 CPI-U fell by 0.11% (-0.11%), following a headline month-to-month "unchanged" reading at 0.03% in November. The headline month-to-month December decline was shy of "unchanged" market expectations.

The adjusted headline December inflation number was boosted somewhat by seasonal adjustments in the energy and "core" sectors, but was hit by adjustments to food. On an unadjusted basis, December 2015 CPI-U declined by 0.34% (-0.34%), following an unadjusted monthly decline of 0.21% (-0.21%) in November.

Encompassed by the seasonally-adjusted contraction of 0.11% (-0.11%) in December [down by an unadjusted 0.34% (-0.34%)], aggregate December energy inflation fell by an adjusted 2.37% (-2.37%) for the month [down by an unadjusted 3.11% (-3.11%)]. In the other major CPI sectors, adjusted December food inflation declined by 0.24% (-0.24%) [down by an unadjusted 0.16% (-0.16%)], while the adjusted "core" inflation rate rose by 0.13% [down by 0.12% (-0.12%) unadjusted] for the month.

Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 2.10% in December 2015, versus 2.02% in November 2015. Annual average inflation for the "core" CPI-U was 1.75% in 2015, versus 1.76% in 2014.

**Quarterly CPI-U.** On an annualized quarter-to-quarter basis, the seasonally-adjusted CPI-U rose by 0.23% in fourth-quarter 2015, up by 1.58% in the third quarter, up by 2.98% in the second quarter and down by 3.06% (-3.06%) in the first quarter. On an unadjusted, year-to-year basis, annual inflation by quarter was up by 0.47% in fourth-quarter 2015, by 0.11% in third-quarter 2015, and down in second-quarter 2015 by 0.04% (-0.04%), and by 0.06% (-0.06%) in first-quarter 2015.

**Year-to-Year and Average-Annual CPI-U.** Not seasonally adjusted, December 2015 year-to-year inflation for the CPI-U rose to 0.73%, following an annual gain in November 2015 of 0.50%. In terms of change in the annual average CPI-U, 2015 was up by 0.12% versus 2014, which was up by 1.62% versus 2013.

***CPI-W.*** The December 2015 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, declined month-to-month by 0.17% (-0.17%), versus an unadjusted decline of 0.40% (-0.40%). That followed an adjusted decline of 0.02% (-0.02%) in November, and an unadjusted monthly decline of 0.28% (-0.28%).

**Quarterly CPI-W.** On a quarter-to-quarter basis, the seasonally-adjusted CPI-W fell at annualized pace of 0.44% (-0.44%) in fourth-quarter 2015, up by 1.47% in the third quarter, up by 3.35% in the second quarter and down by 4.41% (-4.41%) in the first quarter. On an unadjusted year-to-year basis, annual inflation by quarter was up by 0.03% in fourth-quarter 2015, down by 0.41% (-0.41%) in third-quarter 2015, down by 0.59% (-0.59%) in second-quarter 2015, and down by 0.68% (-0.68%) in first-quarter 2015.

**Year-to-Year and Average-Annual CPI-W.** Unadjusted, though, December 2015 annual CPI-W also turned increasingly positive, to a headline gain of 0.38%, having turned positive year-to-year by 0.07% in November 2015 for the first time since December 2014. In terms of change in the annual average CPI-W, 2015 was down by 0.41% (-0.41%) versus 2014, which was up by 1.50% versus 2013.

***Chained-CPI-U (Annual Revisions).*** The headline C-CPI-U underwent annual revisions back to February 2013 along with the headline December 2015 reporting, which always is not seasonally adjusted. Revisions reduced headline annual inflation minimally. Annual C-CPI-U inflation for 2013 revised to 1.22% from 1.24%, 2014 revised to 1.45% from 1.46%, and the eleven months through November 2015 revised to an annual decline of 0.24% (-0.24%) from 0.19% (-0.19%).

**Quarterly C-CPI-U.** On a not-seasonally-adjusted, year-to-year basis, revised annual C-CPI-U inflation by quarter was up by 0.06% in fourth-quarter 2015, down by 0.14% (-0.14%) in third-quarter 2015, down by 0.24% (-0.24%) in second-quarter 2015, and down by 0.46% (-0.46%) in first-quarter 2015.

**Year-to-Year and Average-Annual Inflation C-CPI-U.** Headline year-to-year inflation for the unadjusted December 2015 C-CPI-U was up by 0.31%, versus a revised 0.9% (previously 0.11%) annual gain in November 2015. In terms of change in the annual average C-CPI-U, 2015 was down by 0.19% (-0.19%) versus 2014, which again was up by a revised 1.45% versus 2013.

***Alternate Consumer Inflation Measures.*** The ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 4.3% in December 2015, versus 1.1% in November 2015. Annual average inflation here was 3.7% in 2015 versus 5.2% in 2014. The December 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked

changes to official CPI reporting methodologies back to 1980, was at about 8.4% year-to-year, versus 8.1% in November 2015. Annual average inflation here was 7.7% in 2015 versus 9.3% in 2014.

***Real (Inflation-Adjusted) Retail Sales—December 2015—Flattening Quarterly Growth, Intense Recession Signal.*** Not adjusted for inflation, headline nominal retail sales in December 2015 declined by 0.11% (-0.11%), following an upwardly-revised gain of 0.37% in November 2015, and a downwardly revised gain of 0.02% in October 2015, as detailed in prior [Commentary No. 780](#). Year-to-year December 2015 nominal retail sales growth spiked to 2.20%, against a particularly weak December 2014, following an upwardly-revised 1.59% annual gain in November 2015, and a downwardly-revised 1.63% annual gain in October 2015.

Based on the January 20th reporting of a headline monthly decline of 0.11% (-0.11%) in the seasonally-adjusted December 2015 CPI-U, and in the context of respective month gains of 0.03% and 0.20% in November and October 2015, December 2015 real retail sales rose by 0.01%. That followed an upwardly-revised monthly gain of 0.34% in November, and a downwardly-revised contraction in October of 0.18% (-0.18%).

Fourth-Quarter Annual Real Growth Flattened Out. Net of inflation, the annualized contraction in first-quarter 2015 real retail sales deepened further to 1.47% (-1.47%). Reflecting no new historical information, the repetitive downside-shifting in first-quarter growth 2015 rates was due solely to the deliberate upping of fourth-quarter seasonal factors in both 2014 and 2015, with the effect of boosting relative headline fourth-quarter 2014 and 2015 activity. The problem here is with the Census Bureau not publishing an historical series that is of full, instead of selective and limited, comparability to the monthly revisions each month to all data of the last five years, based on the use of monthly, concurrent seasonal-factor adjustments (see the discussion in [Commentary No. 780](#)).

The quarterly change in second-quarter real retail sales held at an unrevised gain of 3.72%. Third-quarter showed an unrevised gain of 2.89%. The fourth-quarter change flattened out on a relative basis to an annualized quarterly gain of 0.52%. Adjusted for realistic inflation (see [No. 777 Year-End Special Commentary](#)), however, real retail sales and the broad economy never truly recovered from the economic collapse into 2008 and 2009.

Intense Signal of Recession in Annual Real Growth. During normal economic times, annual real growth at or below 2.0% signals an imminent or concurrent recession. That signal had been given in February, April, June, August, October and November 2015, indicating a deepening downturn, with an intensified fall off now in place for fourth-quarter 2015. Current reporting remains consistent with a signal of unfolding recession. *Graphs 19 and 21* in the *Reporting Detail*, show the latest patterns of headline annual real growth in retail sales.

On a monthly basis, with seasonally-adjusted headline year-to-year CPI-U inflation up by 0.66% in December 2015, and up by 0.44% in November 2015 and by 0.12% in October 2015, year-to-year real growth in December 2015 came in at 1.53%, November 2015 sales revised higher to 1.15%, with October 2015 sales revising lower to 1.51%.

Separately year-to-year change in fourth-quarter real retail sales slowed to 1.40%—an intense signal of pending recession—down from 2.13% in third-quarter 2015.



Consumer Liquidity Problems Impair Retail Sales. Broadly discussed in [No. 777 Year-End Special Commentary](#) and briefly updated in prior [Commentary No. 780](#), the primary underlying issues restraining retail sales and residential real estate 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, let alone consumer-driven, real retail sales 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 as well as residential construction. 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.

As official consumer inflation resumes its upside climb in the year ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by the general pattern of the ongoing real earnings difficulties discussed in the next section—these data should continue trending meaningfully lower, in what should be recognized shortly as a formal “new” recession.

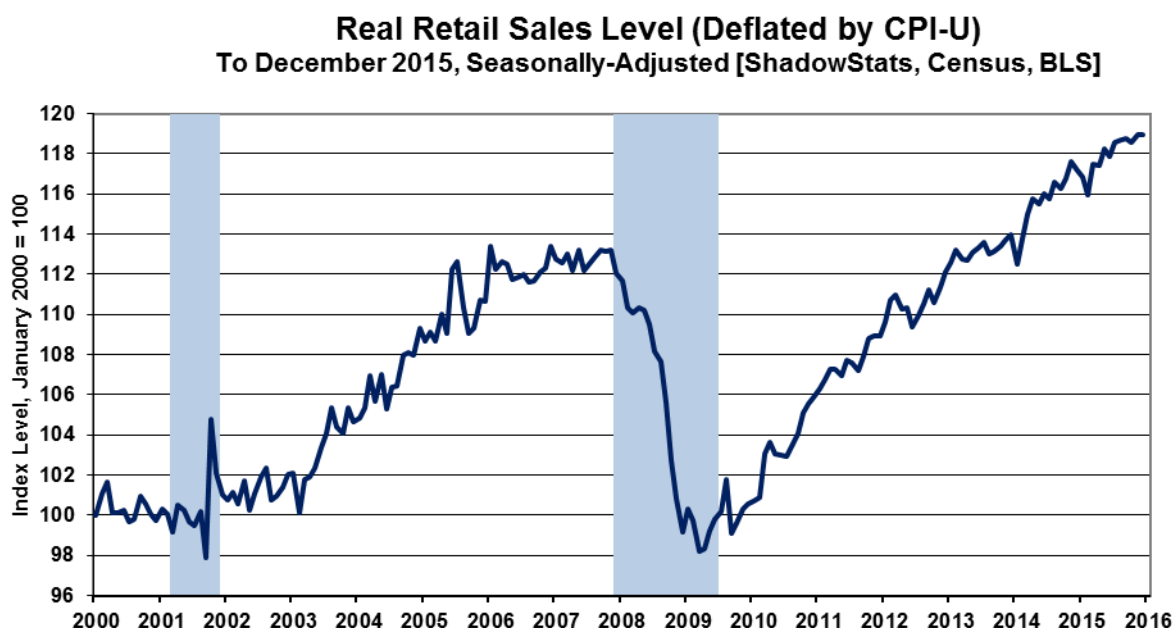
Real Retail Sales Graphs. In the *Reporting Detail*, *Graphs 18* and *20* show the level of real retail sales activity (deflated by the CPI-U); while *Graphs 19* and *21* show the year-to-year percent change for the same periods. The level of headline monthly activity turned lower in October with an uptick in November and an unchanged December 2015 level, with recent headline growth largely dissipating in recent revisions, and now flattening out. Annual real growth has slowed markedly.

Corrected Real Retail Sales—December. The apparent “recovery” of headline real retail sales shown in *Graph 1* (see also *Graph 18*) 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 slowed to a near-standstill in 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](#) and [Public Commentary on Inflation Measurement](#), deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth.

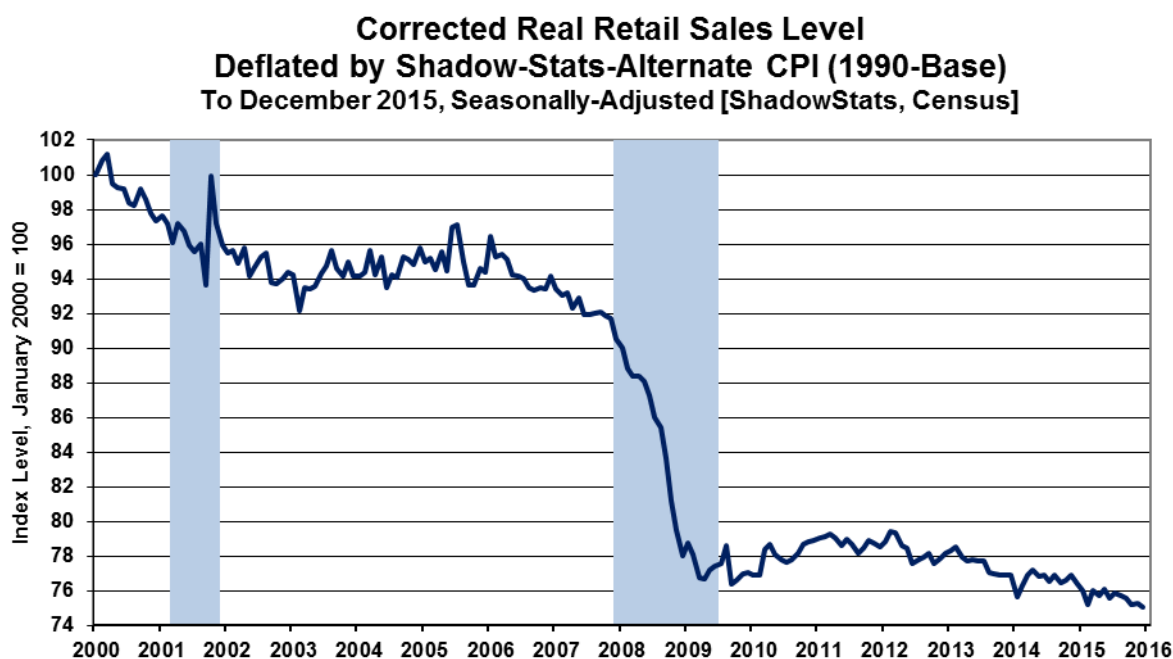
Both of the accompanying graphs are indexed to January 2000 = 100.0 to maintain consistency in the series of graphs related to corrected inflation-adjustment (including the regular plots of industrial production, new orders for durable goods and GDP). The first graph reflects the official real retail 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 is evident in a comparison of *Graph 1* with *Graph 18* in the *Reporting Detail* section.

Instead of being deflated by the CPI-U, the “corrected” real retail sales numbers—in *Graph 2*—use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation. With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation and renewed downturn, consistent with patterns seen in consumer indicators like real average weekly earnings (see *Graph 3*), broad unemployment series and in most housing statistics (see [Commentary No. 779](#) and the accompany detail on December 2015 Housing Starts).

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



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



A topping out in late-2011 and early-2012 reverted to renewed decline in second-quarter 2012 in this series (*Graph 2*), which had been bottom-bouncing at a low-level plateau of economic activity since the

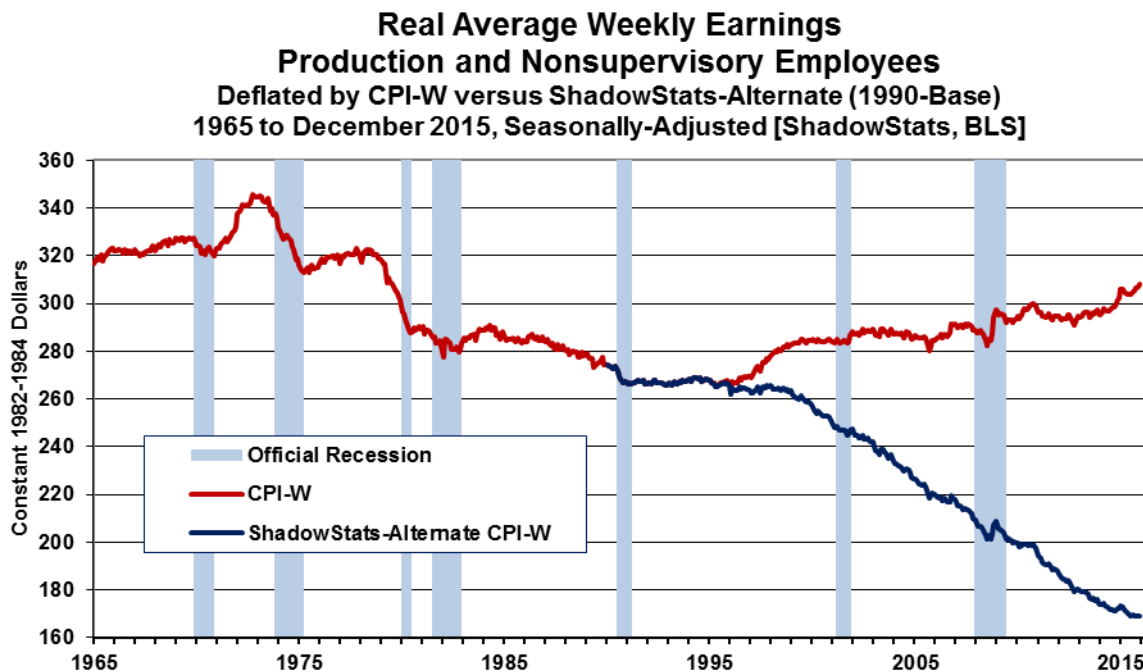
economic collapse into 2009. The renewed contraction has trended into and deepened on a monthly basis throughout 2015, allowing for the occasional and temporary upside blips.

***Real Average Weekly Earnings—December 2015—Headline Monthly Gains Primarily Reflected Negative Monthly Inflation.*** Coincident with the release of the December 2015 CPI-W, estimates were released for December real average weekly earnings. In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings rose by 0.26% in December 2015, versus an upwardly-revised 0.11% gain in November 2015, versus an unrevised 0.49% gain in October. With “no change” in hours worked, but a gain of 0.09% in wage levels, the bulk of the headline 0.26% “gain” in real earnings was due to the headline, CPI-W month-to-month contraction of 0.17% (-0.17%).

Year-to-year and seasonally-adjusted, annual growth in December 2015 real average weekly earnings rose to 1.81%, versus an upwardly revised 1.78%, and an unrevised 2.66% in October 2015. Not seasonally adjusted, annual growth in December 2015 rose to 1.03%, versus an upwardly revised 1.69% in November 2015 and an unrevised 2.70% in October 2015.

Both the monthly and annual fluctuations in this series were irregular, but current reporting remains well within the normal bounds of volatility, including consideration for unusual patterns resulting from negative inflation, depressed by falling gasoline prices. The headline detail here also reflected the usual surveying and seasonal-factor instabilities common to BLS payroll-survey reporting, and it is subject to significant revisions in the context of the pending annual benchmarking of the payroll-employment series scheduled for February 5th.

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





Preceding *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 in a minimal uptrend for the last two decades. Deflated by the ShadowStats measure, real earnings have been in fairly-regular decline for the last four decades, much closer to common experience than the pattern suggested by the CPI-W. See the [Public Commentary on Inflation Measurement](#) for further detail.

**Housing Starts—December 2015—Despite a Fourth-Quarter Contraction, Aggregate Starts Showed a Smoothed Pattern of Faltering Stagnation.** Headline December 2015 housing starts took a minimal monthly tumble after rising sharply in November, but that was enough to lock in a fourth-quarter 2015 housing starts contraction, versus third-quarter 2015 activity, with full initial reporting of fourth-quarter 2015 activity in place.

***Fourth-Quarter Housing Starts Fell at an Annualized Quarterly Pace of 8.5% (-8.5%).*** In terms of annualized quarterly change, the aggregate housing-starts count fell at an annualized-quarterly pace of 26.2% (-26.2%) in first-quarter 2015, rose at an annualized 96.3% pace in second-quarter 2015, and basically was flat with an unrevised 0.2% annualized third-quarter 2015 pace of growth. Based on the headline reporting for December 2015, fourth-quarter 2015 housing starts fell at an annualized pace of 8.5% (-8.5%), which was line with a developing headline fourth-quarter 2015 GDP contraction, discussed in the the opening paragraphs of these *Opening Comments*.

***Smoothed Numbers.*** Still, the general pattern of low-level stagnation continued, with its up-trending six-month moving-average pattern of recent months faltering again, with the most-recent headline detail. This pattern is viewed best in terms of the longer-range historical graph of aggregate activity (*Graph 24*) in the *Reporting Detail*, and particularly in the context of the headline activity, smoothed by a six-month moving average, shown here in accompanying *Graph 7*. While the minor upside trend in the broad pattern of stagnation in the aggregate series appears to have stalled, total December housing-starts activity remained well below any recovery level, down from its pre-recession high by 49% (-49%).

Separately, the dominant, single-unit housing starts component of the series (*Graphs 8 and 9*) remained down by 58% (-58%) from its January 2006 pre-recession peak.

Reflected in the smoothed graphs (see *Graph 7*), the aggregate housing-starts series continued to falter from what had been an earlier, minimal uptrend. Such encompassed an uptick in the six-month smoothed single-unit activity (*Graph 9*) and a downtick in the smoothed multiple-unit starts (*Graph 11*).

Over time, the bulk of the extreme, reporting instability and what had been the minimal uptrend in the aggregate series was due largely to particularly-volatile reporting in the multiple-unit housing-starts category (apartments, etc.). Recent activity in multiple-unit starts had recovered to above pre-recession levels, again, in the context of extreme month-to-month volatility. Even so, the recent impact of that recovery has been fading, likely in response to the intensifying general economic slowdown. Otherwise, the multiple-unit series detail largely has been lost in aggregate housing starts series.

***Consumer Liquidity Problems Continue to Impair Housing Activity.*** Largely repeating material here from the *Real Retail Sales* section, as broadly discussed in [No. 777 Year-End Special Commentary](#) and briefly updated in prior [Commentary No. 780](#), and the primary underlying issues restraining current activity in residential real estate 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, particularly tied to homeowner real estate and consumer retail sales.

On a per-structure basis, housing starts volume is dominated by the single-unit category, which has remained broadly stagnant, with something of an uptrend at present (only on a smoothed basis). It has continued to hold at a low level of activity, since hitting bottom in early-2009. The private-housing sector never recovered from the business collapse of 2006 into 2009.

Without real (inflation-adjusted) growth in household income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable economic growth. There remains no chance of a near-term, sustainable turnaround in the housing market, without a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

***December 2015 Housing-Starts, Headline Reporting.*** Headline December 2015 Housing Starts declined minimally, assuring a fourth-quarter 2015 quarterly contraction in the series. In the context of minor upside revisions to October and November reporting, December 2015 housing starts saw a statistically-insignificant, seasonally-adjusted, headline monthly decline of 2.5% (-2.5%). Such followed a revised 10.1% gain in November, and a revised decline of 11.3% (-11.3%) in October. Net of prior-period revisions, December 2015 housing starts fell by 2.0% (-2.0%) for the month, instead of the headline decline of 2.5% (-2.5%). Level-of- activity detail is plotted in *Graphs 4 to 7*, and in *Graphs 23 and 24* in the *Reporting Detail*.

Year-to-year change in the seasonally-adjusted, aggregate December 2015 housing-starts measure was a statistically-insignificant gain of 6.4%, versus a revised annual gain of 17.1% in November 2015, and a revised annual contraction of 0.7% (-0.7%) in October 2015.

The December 2015 decline of 2.5% (-2.5%) in total housing starts reflected headline monthly contractions of 3.3% (-3.3%) in the “one unit” category and 3.4% (-3.4%) in the “five units or more” category, with some offsetting minimal gain in the otherwise unreported “two to four units” category (see the later “multiple-unit” discussion). As most commonly is the case, not one of the headline changes was statistically significant, on either a month-to-month or a year-to-year basis.

***By-Unit Category.*** Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit structure housing starts—generally for individual consumption, resulting in new home sales—versus multi-unit structure starts that generally reflect the building of rental and apartment units.

Housing starts for single-unit structures in December 2015 declined month-to-month by a statistically-insignificant 3.3% (-3.3%), following an upwardly-revised gain of 11.0% in November, and a revised monthly decline of 3.5% (-3.5%) in October. Single-unit starts for December 2015 showed a statistically-

insignificant year-to-year annual gain of 6.1%, versus a revised gain of 18.5% in November 2015, and a revised 1.4% gain in October 2015 (see *Graphs 4, 5, 8 and 9*).

Housing starts for apartment buildings (generally 5-units-or-more) in December 2015 fell month-to-month by a statistically-insignificant 3.4% (-3.4%), versus a downwardly-revised monthly gain of 9.9% in November, and a revised monthly decline of 24.4% (-24.4%) in October. The statistically-insignificant December year-to-year gain of 8.6% followed a revised annual gain of 15.2% in November 2015, and a revised annual decline in October 2015 of 3.6% (-3.6%).

Expanding the multi-unit housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category (see *Graphs 4, 5, 10 and 11*).

Accordingly, the statistically-insignificant December 2015 monthly decline of 2.5% (-2.5%) in aggregate starts was composed of statistically-insignificant declines of 3.3% (-3.3%) in one-unit structures and 1.0% (-1.0%) in the multiple-unit structures categories (2-units-or-more, including the 5-units-or-more category).

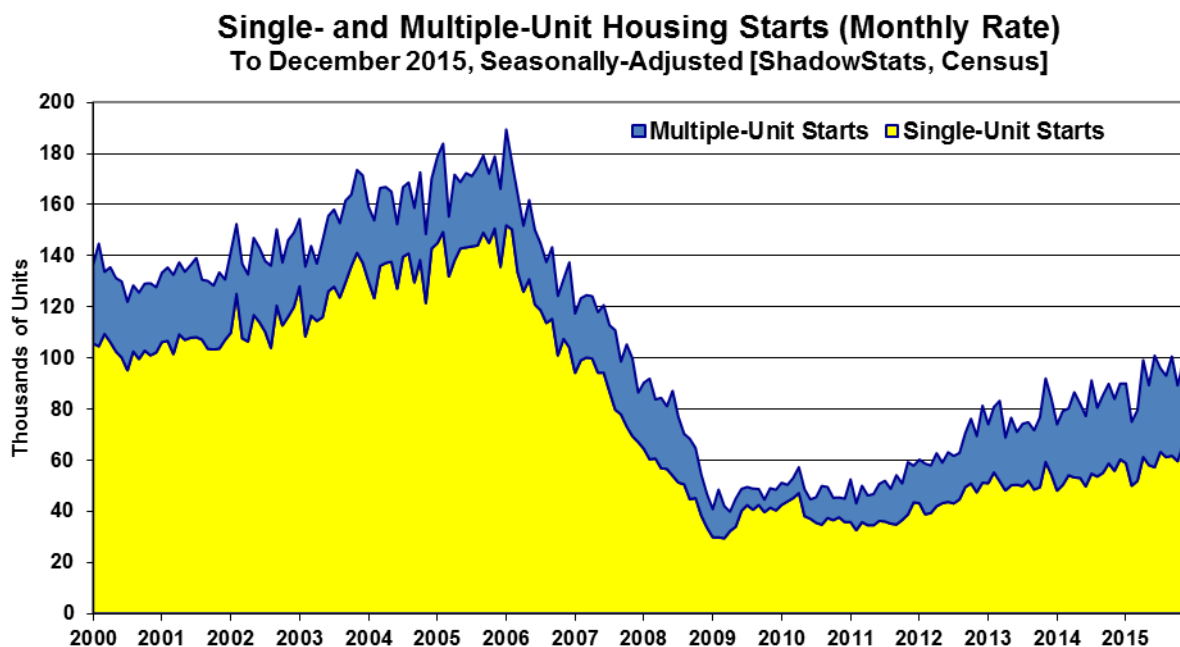
***Housing Starts Graphs.*** Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,149,000 in December 2015, versus a revised 1,179,000 (previously 1,173,000) in November 2015. The scaling detail in the aggregate *Graphs 23 and 24* at the end of the *Reporting Detail* section reflects those annualized numbers.

Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the headline 236,000 month-to-month gain in the annualized April 2015 housing starts was larger than any actual total (non-annualized) level of monthly starts ever, for a single month. That is since related starts detail first was published after World War II.

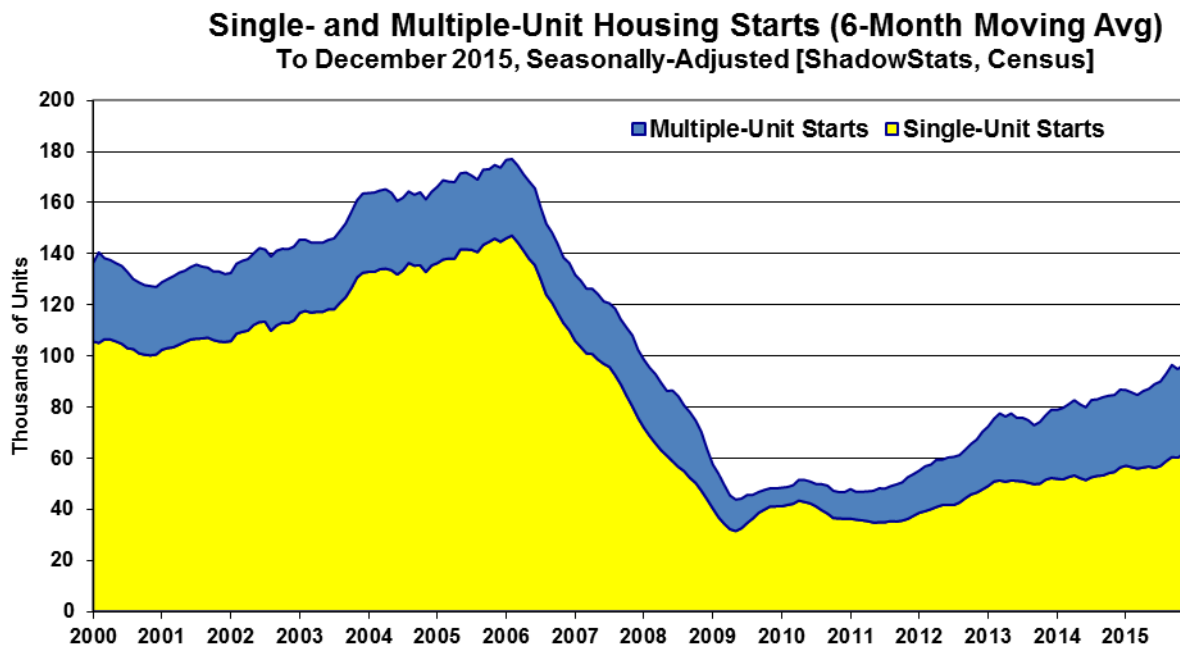
Accordingly, the monthly rate of 95,750 units in December 2015, instead of the annualized 1,149,000-headline number, is used in the scaling of the *Graphs 4 to 11* in these *Opening Comments*. With the use of either scale of units, though, appearances of the graphs and the relative monthly, quarterly and annual percentage changes are otherwise identical, as can be seen in a comparison of *Graph 6* versus *Graph 23* in the *Reporting Detail*.

The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of housing starts then was down 79% (-79%) from the January 2006 pre-recession peak. Against that downside-spiked low in April 2009, the December 2015 headline number was up by 140%, but it still was down by 49% (-49%) from the January 2006 pre-recession high for the series. Shown in the historical perspective of the post-World War II era, current aggregate-starts activity is in up-trending stagnation at low levels that otherwise have been at or near the historical troughs of recession activity of the last 70 years, as reflected in *Graph 24* at the end of the *Reporting Detail* section.

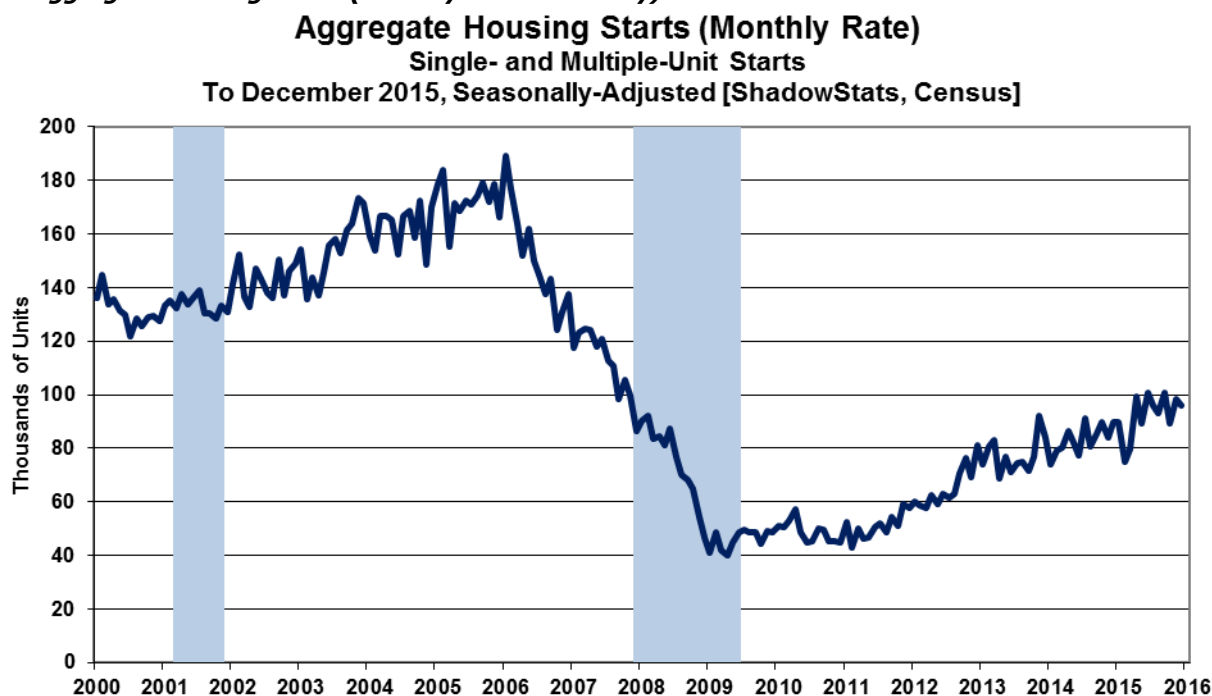
**Graph 4: Single- and Multiple-Unit Housing Starts (Monthly Rate of Activity)**



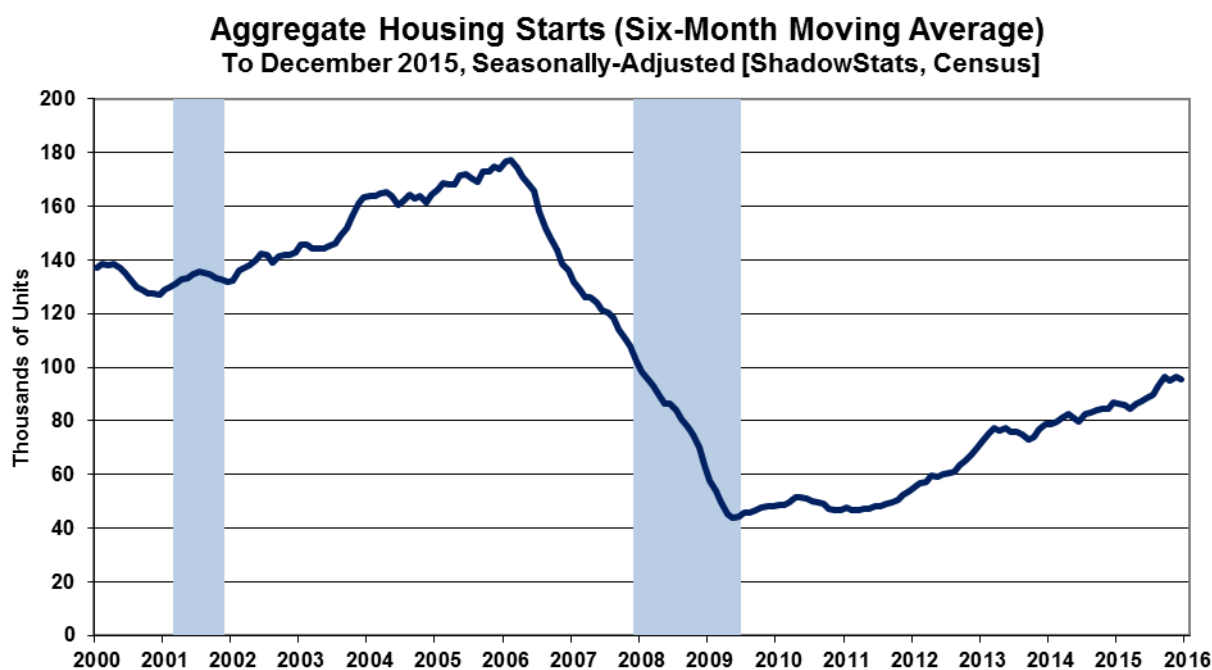
**Graph 5: Single- and Multiple-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)**



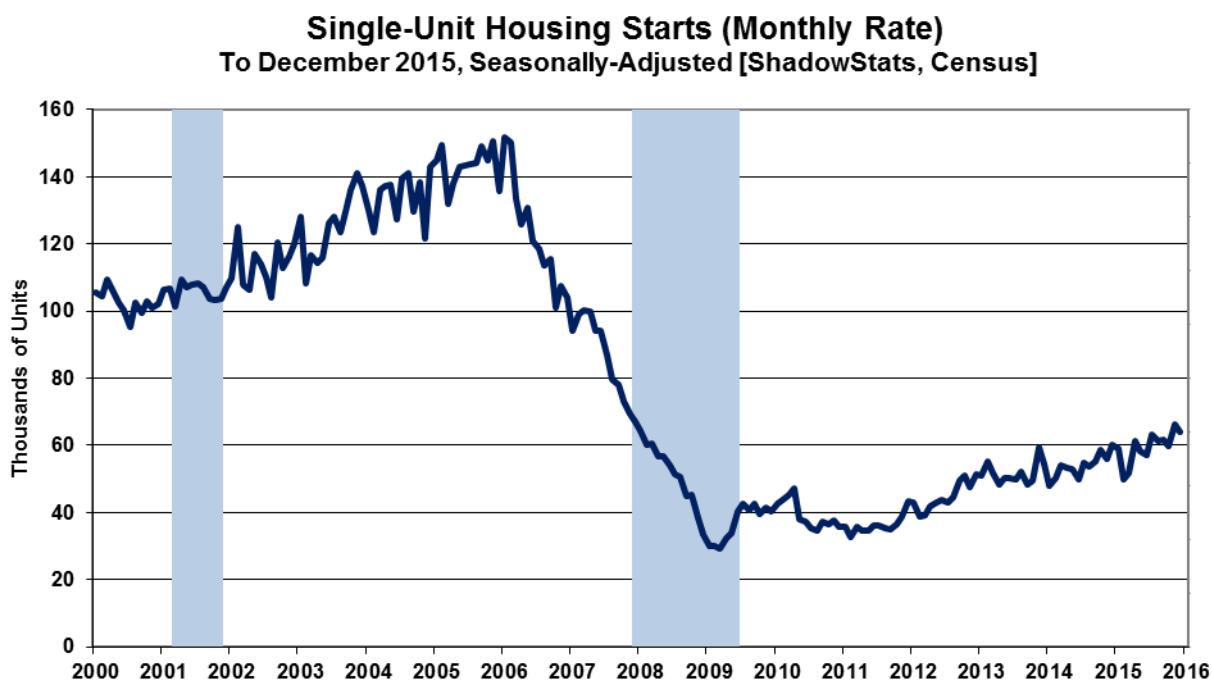
**Graph 6: Aggregate Housing Starts (Monthly Rate of Activity)**



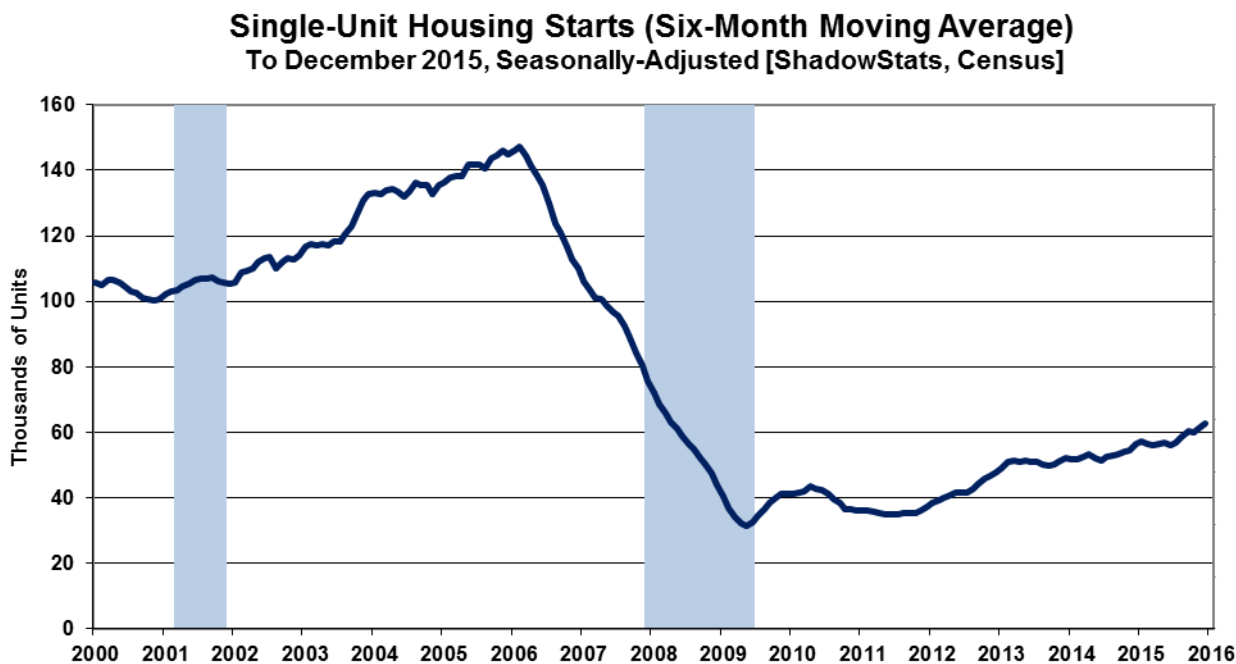
**Graph 7: Aggregate Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)**



**Graph 8: Single-Unit Housing Starts (Monthly Rate of Activity)**

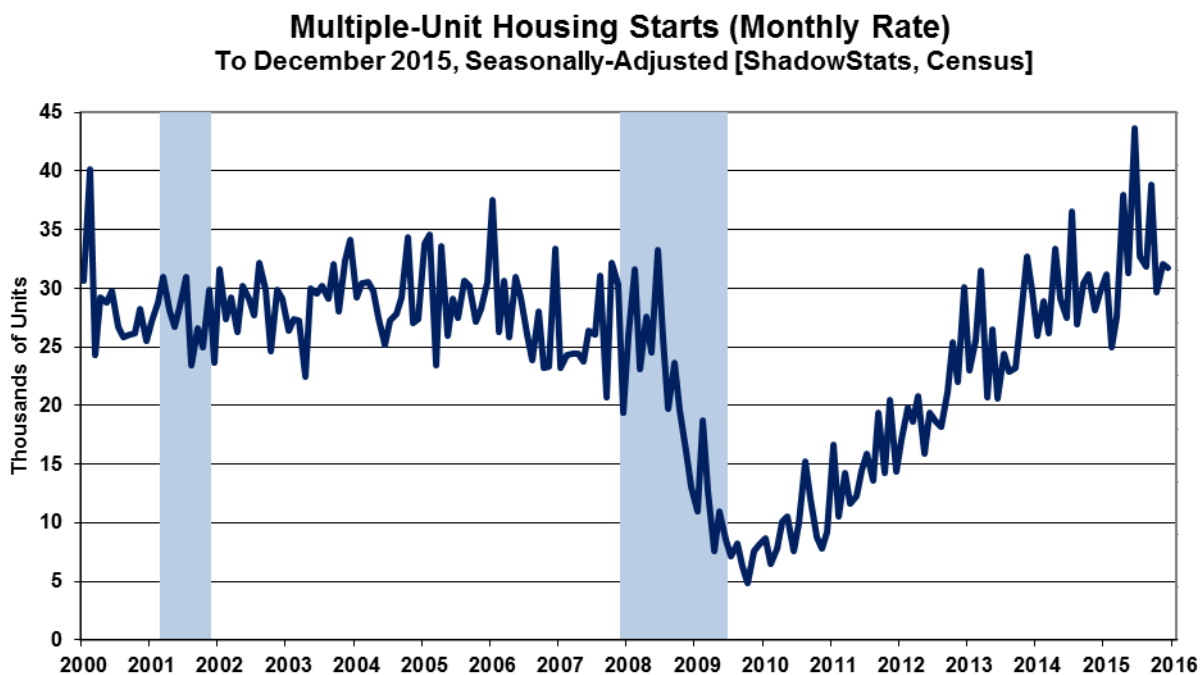


**Graph 9: Single-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)**

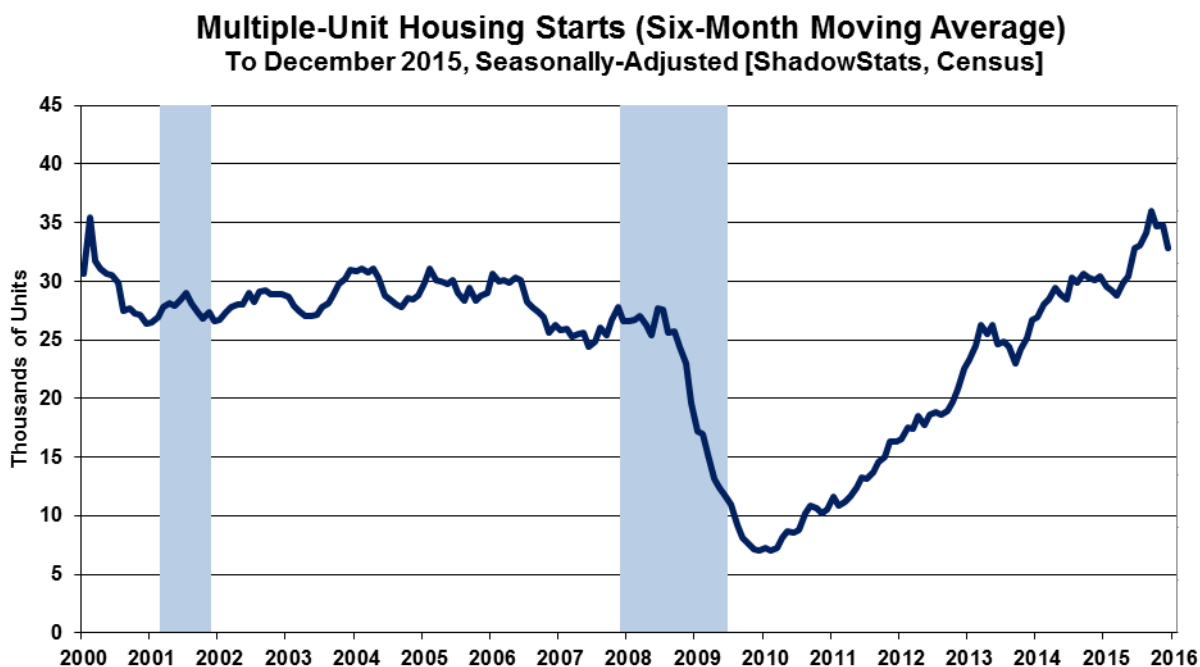




**Graph 10: Multiple-Unit Housing Starts (Monthly Rate of Activity)**



**Graph 11: Multiple-Unit Housing Starts (Six-Month Moving Average, Monthly Rate of Activity)**



[The *Reporting Detail* section includes significant additional graphs and material on the CPI and related series, and on *Housing Starts*.]

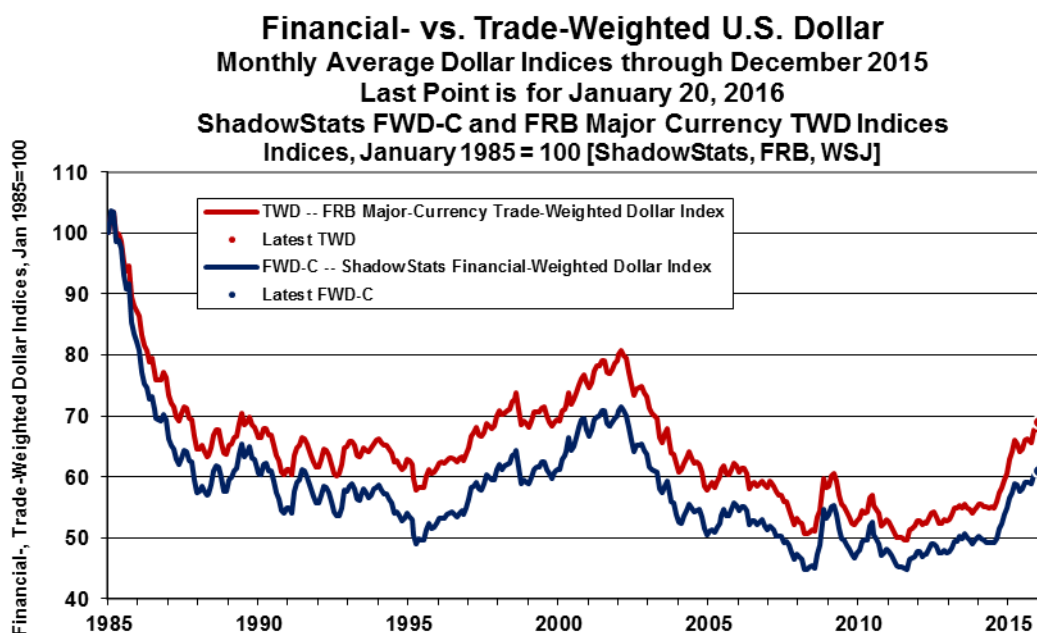
## HYPERINFLATION WATCH

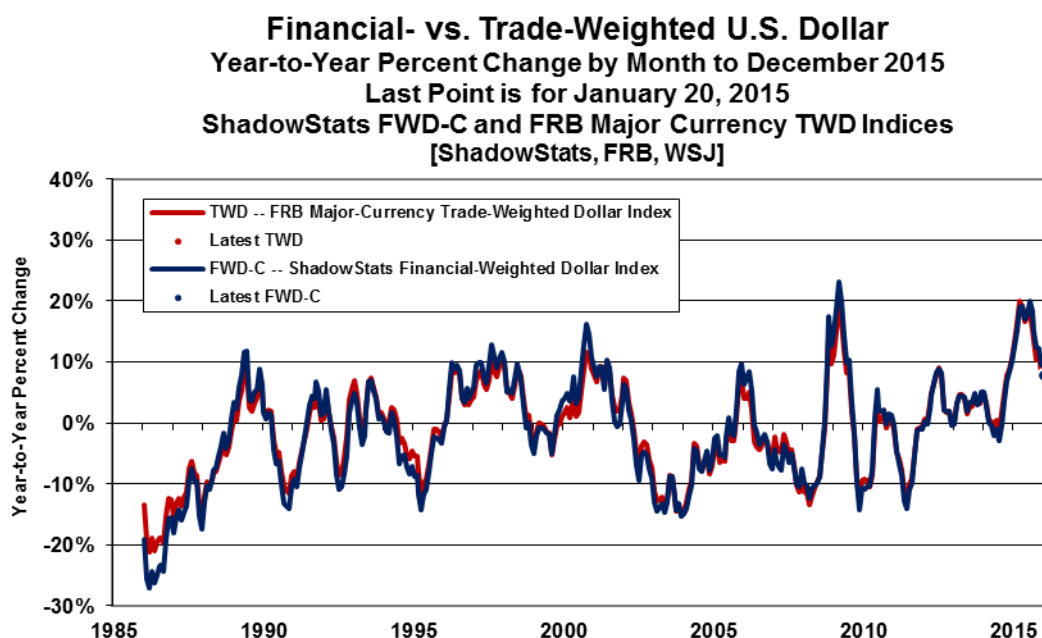
### GOLD GRAPHS AND THE U.S. DOLLAR

**Monthly Gold Graphs and Related Comments—Rapidly Intensifying U.S. Economic Downturn Generates Unstable Circumstances for the U.S. Dollar and the Financial Markets.** Mounting, broadly-based market acceptance of seriously-deteriorating, domestic U.S. economic activity increasingly should hit the exchange rate value of the U.S. dollar, particularly in the wake of the Federal Reserve’s Federal Open Market Committee (FOMC) mid-December rate hike and accompanying public assurances that monetary policy was being set against the background of economic conditions (as discussed in [No. 777 Year-End Special Commentary](#)).

Global market expectations for a Fed rate hike, and now for further rate hikes, have been primary in driving the U.S. dollar higher in the currency markets. Underlying those expectations have been the hype of a strengthening U.S. economy. As the economy increasingly falls apart, the Fed again will be forced into “easing,” into accommodating liquidity for a U.S. Treasury faced with much-larger-than-expected government fiscal shortfalls, and into maintaining adequate liquidity in the banking system.

#### **Graph 12: Financial- versus Trade-Weighted U.S. Dollar**



**Graph 13: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar**

The monthly plots of the U.S. Dollar (*Graphs 12 and 13*) and the three gold graphs (*Graphs 14, 15 and 16*) that regularly accompany the *CPI Commentaries* follow. The trade- and financial-weighted dollar measures have shown some increased volatility, but generally they still are moving higher. Increasingly, though the global markets do not appear to buying the concept that all is right with the U.S. financial system and economy, particularly as seen in the increasingly unstable equity markets. The “Latest January” points in these graphs reflect late-day New York prices for January 20th.

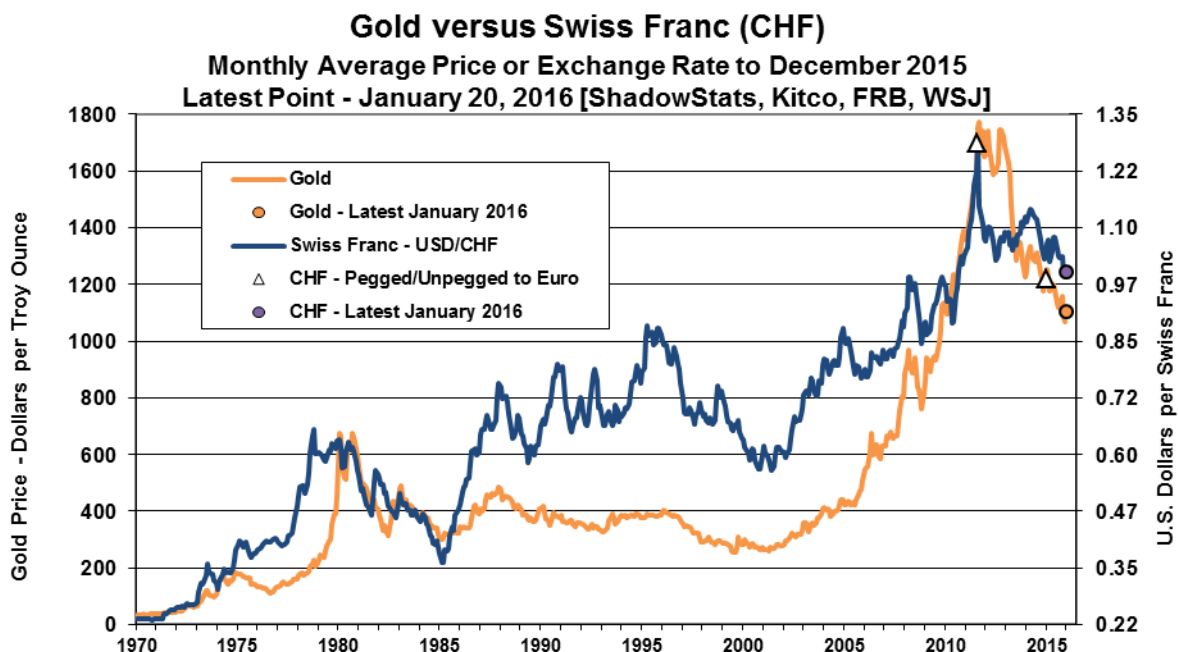
Detailed in [Commentary No. 772](#), the ShadowStats Financial-Weighted Dollar measure recently was expanded to incorporate that Chinese Yuan (CNY)/Renminbi (RMB).

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.

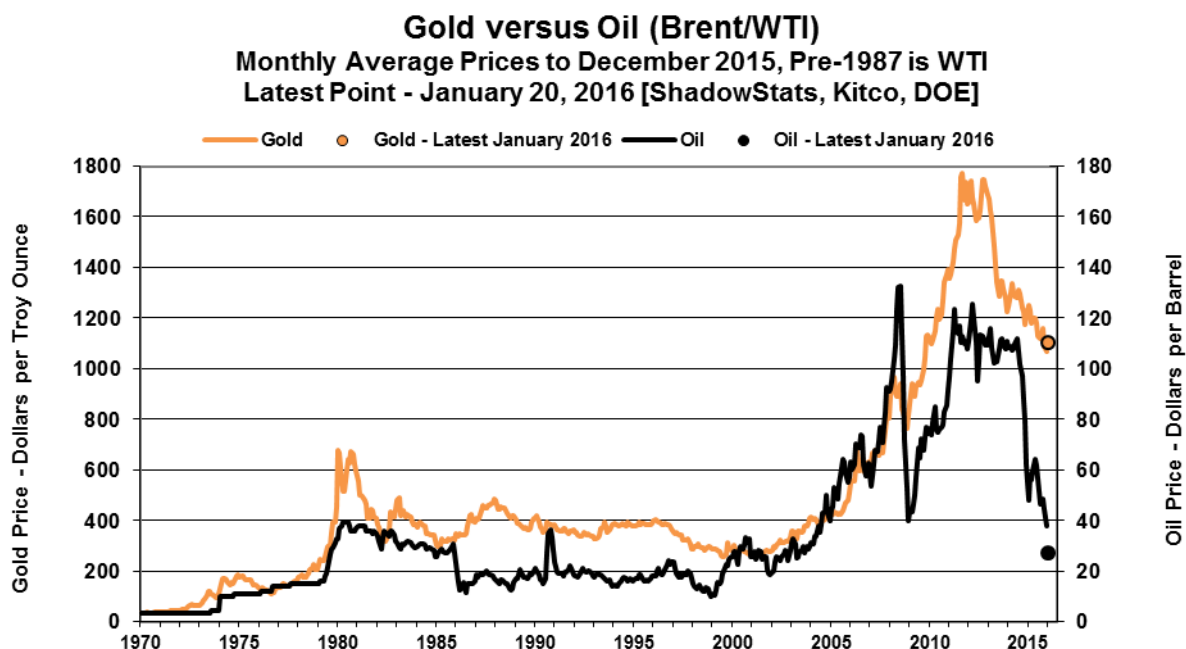
Global financial markets have become increasingly vulnerable to shocks, along with the mounting domestic and global economic and political instabilities. ShadowStats continues to look for a massive flight from the U.S. dollar in the year ahead, to the stronger Western currencies and precious metals, likely much sooner than later, and quite possibly with little further warning. These various issues also have been discussed broadly recently, again in the December 30th [No. 777 Year-End Special Commentary](#) and the August 10th [No. 742 Special Commentary: A World Increasingly Out of Balance](#), as well as in the regular weekly *Commentaries*.

Reflecting the U.S. dollar strength of the last eighteen months, and exacerbated by a variety of jawboning and interventions of various forms, prices for gold, silver and oil have been hit particularly hard. Those circumstances should reverse as the U.S. dollar comes under heavy, fundamental selling pressure.

**Graph 14: Gold versus the Swiss Franc**



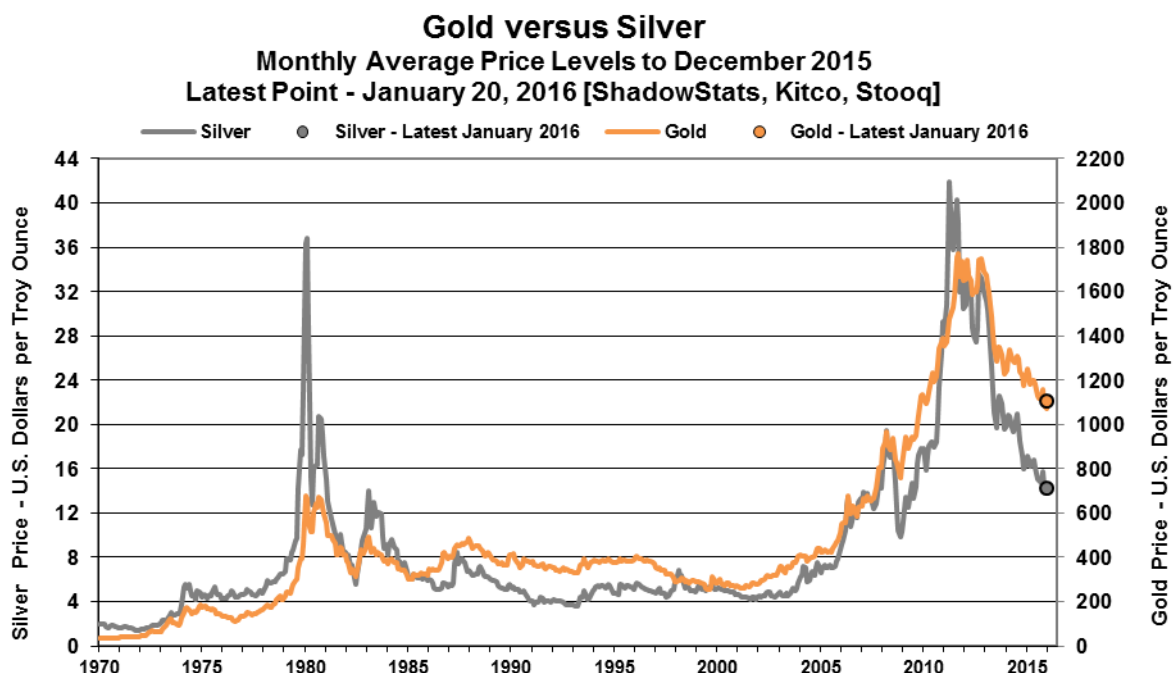
**Graph 15: Gold versus Oil**



Oil prices have continued to plummet, along with promises of an increasing oil glut and lack of meaningful selling in the U.S. dollar. A rebound in oil prices, however, still should coincide with a sharp downturn in the dollar, and, in turn, that should begin to rekindle U.S. inflation. As the U.S. dollar faces increased, fundamental debasement, holdings of physical gold and silver will continue to offer the

strongest options for preserving the purchasing power and desired liquidity for one's wealth and assets through the difficult times ahead.

**Graph 16: Gold versus Silver**



## HYPERINFLATION OUTLOOK SUMMARY

**Updated Summary Outlook.** Given unanticipated delays in putting out today's *Commentary* (it had been planned for yesterday, January 20th), the reformatted *Hyperinflation Outlook Summary* has been pushed to the next *Commentary No. 782* (the full update remains available at [No. 777 Year-End Special Commentary](#)). Thereafter, it shall be found, including ongoing updates, as a regular link in the weekly *Commentaries*. That will save roughly ten pages of often-repetitive material in subsequent missives.

## REPORTING DETAIL

### CONSUMER PRICE INDEX—CPI (December 2015)

**Rebounding Headline Annual CPI-U Inflation Continued to Reflect Year-Ago Distortions.** *[The first three paragraphs here largely are repeated from the Opening Comments section.]* Despite a further decline in gasoline prices, and with positive seasonal adjustments inadequate to push the energy-inflation sector into the plus-column, headline monthly consumer inflation CPI-U was down by 0.11% (-0.11%) in December 2015, yet unadjusted annual inflation jumped to 0.73%, from 0.50% in November 2015, the strongest annual inflation showing since a 0.76% gain in December 2014. In an environment of relatively less-severe declines in gasoline prices, the jump in annual December inflation again partially reflected the relatively-more-severe hit that headline inflation took a year ago, also from collapsing gasoline prices.

Where January 2016 gasoline prices have fallen further versus December 2015, negative seasonal factors and year-ago reporting conditions should combine, likely to push headline monthly CPI-U lower, but leaving year-to-year January 2016 inflation still in positive territory. All this is subject to next month's annual revision to the seasonally-adjusted CPI data, and likely BLS intervention analysis on gasoline-price related seasonal adjustments, which likely will alter the monthly adjustment patterns.

Against the particularly-weak headline CPI-U showing of a year ago, the headline upturn in annual December 2015 inflation also was despite recent, continued rally in the U.S. dollar and ongoing manipulations by the Federal Reserve and other central banks. The inflation upturn in the CPI-U also was mirrored in the CPI-W and the C-CPI-U, with both those series moving more strongly into positive annual-inflation territory.

Discussed in the *Gold Graphs* section and in [No. 777 Year-End Special Commentary](#), increasing market expectations of seriously-contracting, U.S. economic activity should impact the global demand for U.S. dollars negatively, rapidly and meaningfully. The related market presumption would tend to favor a less-than-aggressive, near-term FOMC policy stance towards further, near-term interest rate hikes. Once selling of the U.S. begins to intensify, so too will an upturn in headline U.S. consumer inflation.

Separately, although the pace of annual CPI-U inflation in December rose to 0.73%, 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 in December to 4.3% annual inflation, based on 1990 methodologies, and to 8.4% annual inflation, based on 1980 methodologies.

**Longer-Range Inflation Outlook.** Discussed generally in [No. 777 Year-End Special Commentary](#), high risk of a 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 continue to vacillate, but they should solidify shortly in response to declining domestic business activity, and then begin 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 could do so with little warning (see



the *Gold Graphs* section in the *Hyperinflation Watch*). Ongoing economic and financial-system-liquidity crises still threaten systemic instabilities that, as with their Panic of 2008 precursors, cannot be contained without further, official actions that have serious inflation consequences.

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### ***Notes on Different Measures of the Consumer Price Index***

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

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

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

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

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

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**CPI-U.** In advance of annual revisions to just the seasonally-adjusted CPI data with next month’s reporting, the Bureau of Labor Statistics (BLS) reported this morning, January 20th, that headline, seasonally-adjusted December 2015 CPI-U fell by 0.1% (-0.1%), a decline of 0.11% (-0.11%) at the second decimal point. Such followed a headline month-to-month “unchanged” reading at 0.0%, a gain of 0.03% at the second decimal point in November. The headline month-to-month December decline was shy of “unchanged” market expectations.

The adjusted headline December inflation number was boosted somewhat by seasonal adjustments in the energy and “core” sectors, and was hit by adjustments to food. On an unadjusted basis, December 2015

CPI-U declined by 0.34% (-0.34%), following an unadjusted monthly decline of 0.21% (-0.21%) in November.

Seasonal adjustments for monthly gasoline inflation were positive in December 2015, turning an unadjusted headline decline of 5.88% (-5.88%) into an adjusted headline contraction of 3.94% (-3.94%). A headline, unadjusted monthly decline of 5.13% (-5.13%) for the month had been estimated by the Department of Energy (DOE).

Major CPI-U Groups. Encompassed by the seasonally-adjusted contraction of 0.11% (-0.11%) in December [down by an unadjusted 0.34% (-0.34%)], aggregate December energy inflation fell by a seasonally-adjusted 2.37% (-2.37%) for the month [down by an unadjusted 3.11% (-3.11%)]. In the other major CPI sectors, adjusted December food inflation declined by 0.24% (-0.24%) [down by an unadjusted 0.16% (-0.16%)], while the adjusted “core” inflation rate rose by 0.13% [down by 0.12% (-0.12%) unadjusted] for the month.

Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 2.10% in December 2015, versus 2.02% in November 2015. Annual average inflation for the “core” CPI-U was 1.75% in 2015, versus 1.76% in 2014.

Year-to-Year CPI-U. Not seasonally adjusted, December 2015 year-to-year inflation for the CPI-U rose to 0.7% at the first decimal point, to 0.73% at the second decimal point. That followed headline annual inflation in November 2015 of 0.5% at the first decimal point, 0.50% at the second decimal point.

Year-to-year, CPI-U inflation would increase or decrease in next month’s January 2016 reporting, dependent on the seasonally-adjusted monthly change, versus the adjusted, headline gain of 0.36% in January 2015 CPI-U [subject to annual revisions]. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for January 2016, the difference in January’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the December 2015 annual inflation rate of 0.73%. For example, a seasonally-adjusted, headline monthly “unchanged” reading in the January 2015 CPI-U would sink the annual January inflation to roughly a positive 0.4% [plus-or-minus, depending on rounding].

Quarterly CPI-U. On an annualized quarter-to-quarter basis, the seasonally-adjusted CPI-U rose by 0.23% in fourth-quarter 2015, up by 1.58% in the third quarter, up by 2.98% in the second quarter and down by 3.06% (-3.06%) in the first quarter. On an unadjusted, year-to-year basis, annual inflation by quarter was up by 0.47% in fourth-quarter 2015, by 0.11% in third-quarter 2015, and down in second-quarter 2015 by 0.04% (-0.04%), and by 0.06% (-0.06%) in first-quarter 2015.

Annual Average Inflation CPI-U. In terms of change in the annual average CPI-U, 2015 was up by 0.12% versus 2014, which was up by 1.62% versus 2013.

**CPI-W.** The December 2015 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, declined month-to-month by 0.17% (-0.17%), versus an unadjusted decline of 0.40% (-0.40%). That followed an adjusted decline of 0.02% (-0.02%) in November, versus an unadjusted monthly decline of 0.28% (-0.28%) at that time.

Year-to-Year CPI-W. Unadjusted, though, December 2015 annual CPI-W also turned increasingly positive, to a headline gain of 0.38%, having turned positive year-to-year by 0.07% in November 2015 for the first time since December 2014.

Quarterly CPI-W. On a quarter-to-quarter basis, the seasonally-adjusted CPI-W fell at annualized pace of 0.44% (-0.44%) in fourth-quarter 2015, up by 1.47% in the third quarter, up by 3.35% in the second quarter and down by 4.41% (-4.41%) in the first quarter. On an unadjusted year-to-year basis, annual inflation by quarter was up by 0.03% in fourth-quarter 2015, down by 0.41% (-0.41%) in third-quarter 2015, down by 0.59% (-0.59%) in second-quarter 2015, and down by 0.68% (-0.68%) in first-quarter 2015.

Annual Average Inflation CPI-W. In terms of change in the annual average CPI-W, 2015 was down by 0.41% (-0.41%) versus 2014, which was up by 1.50% versus 2013.

***Chained-CPI-U (Annual Revisions).*** The headline C-CPI-U underwent annual revisions back to February 2013 with the headline December 2015 reporting, which always is not seasonally adjusted. Revisions reduced headline annual inflation minimally. Annual C-CPI-U inflation for 2013 revised to 1.22% from 1.24%, 2014 revised to 1.45% from 1.46%, and the eleven months through November 2015 revised to an annual decline of 0.24% (-0.24%) from 0.19% (-0.19%).

Headline year-to-year inflation for the unadjusted December 2015 C-CPI-U was up by 0.31%, versus a revised 0.9% (previously 0.11%) annual gain in November 2015.

Quarterly C-CPI-U. On a not-seasonally-adjusted year-to-year basis, annual C-CPI-U inflation by quarter was up by 0.06% in fourth-quarter 2015, down by 0.14% (-0.14%) in third-quarter 2015, down by 0.24% (-0.24%) in second-quarter 2015, and down by 0.46% (-0.46%) in first-quarter 2015

Annual Average Inflation C-CPI-U. In terms of change in the annual average C-CPI-U, 2015 was down by 0.19% (-0.19%) versus 2014, which again was up by a revised 1.45% versus 2013.

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 4.3% in December 2015, versus 1.1% in November 2015. Annual average inflation here was 3.7% in 2015 versus 5.2% in 2014.

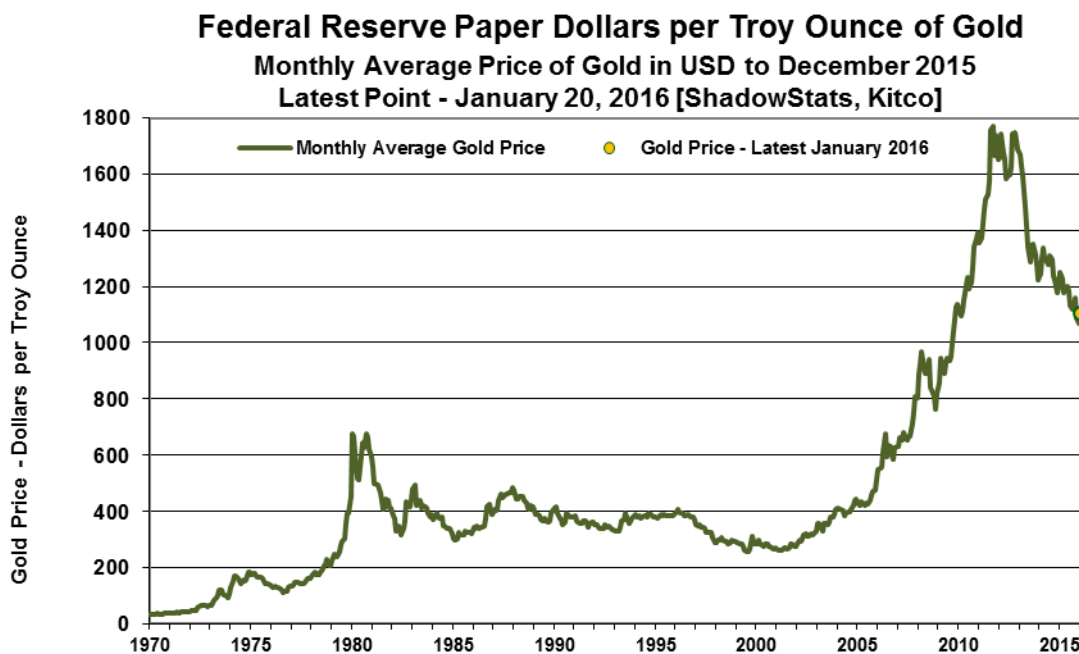
The December 2015 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 8.4% (8.37% for those using a second decimal point) year-to-year, versus 8.1% in November 2015. Annual average inflation here was 7.7% in 2015 versus 9.3% in 2014.

*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.)*

**Graph 17: Monthly Average Gold Price in Dollars (Federal Reserve Notes)**



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

**CPI-U: GOLD at \$2,584 per Troy Ounce, SILVER at \$150 per Troy Ounce**  
**ShadowStats: GOLD at \$12,308 per Troy Ounce, SILVER at \$716 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 \$2,584 per troy ounce, based on December 2015 CPI-U-adjusted dollars, and \$12,308 per troy ounce, based on December 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](http://silverinstitute.org))—although approached in 2011—still has not been hit since 1980, including in terms of inflation-adjusted dollars. Based on December 2015 CPI-U inflation, the 1980 silver-price peak would be \$150 per troy ounce and would be \$716 per troy ounce in terms of December 2015 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

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

***Real (Inflation-Adjusted) Retail Sales—December 2015—Flattening Quarterly Growth, Intense Recession Signal.*** Not adjusted for inflation, headline nominal retail sales in December 2015 declined by 0.11% (-0.11%), following an upwardly-revised gain of 0.37% [previously up by 0.22%] in November 2015, and a downwardly revised gain of 0.02% [previously up by 0.06%, initially up by 0.05%] in October 2015, as detailed in prior [Commentary No. 780](#) of January 15th. Year-to-year December 2015 nominal retail sales growth spiked to 2.20%, against a particularly weak December 2014, following an upwardly-revised 1.59% [previously 1.35%] annual gain in November 2015, and a downwardly-revised 1.63% annual gain [previously up by 1.68%, initially up by 1.69%] in October 2015.

Based on the January 20th reporting of a headline monthly decline of 0.11% (-0.11%) in the seasonally-adjusted December 2015 CPI-U, and in the context of respective month gains of 0.03% and 0.20% in November and October 2015, December 2015 real retail sales rose by 0.01%. That followed an upwardly-revised monthly gain of 0.34% [previously up by 0.19%] in November, and a downwardly-revised contraction in October of 0.18% (-0.18%) [previously down by 0.14% (-0.14%), initially down by 0.15% (-0.15%)].

**Fourth-Quarter Annual Real Growth Flattened Out.** Net of inflation, the annualized contraction in first-quarter 2015 real retail sales deepened further to 1.47% (-1.47%) [previously having been down by 1.39% (-1.39%), down by 1.21% (-1.21%) and it initially down by 1.02% (-1.02%)]. Reflecting no new historical information, the repetitive downside-shifting in first-quarter growth rates was due solely to the deliberate upping of fourth-quarter seasonal factors in both 2014 and 2015, with the effect of boosting relative headline fourth-quarter 2014 and 2015 activity. The problem here is with the Census Bureau not publishing an historical series that is of full, instead of selective and limited, comparability to the monthly revisions each month to all data of the last five years, based on the use of monthly, concurrent seasonal adjustments (see discussion in [Commentary No. 780](#)).

The quarterly change in second-quarter real retail sales held at an unrevised gain of 3.72%. Third-quarter showed an unrevised gain of 2.89%. The fourth-quarter change flattened out on a relative basis to an annualized quarterly gain of 0.52%. Adjusted for realistic inflation (see [No. 777 Year-End Special](#)



[Commentary](#)), however, real retail sales and the broad economy never truly recovered from the economic collapse into 2008 and 2009.

**Intense Signal of Recession in Annual Real Growth.** During normal economic times, annual real growth at or below 2.0% signals an imminent recession. That signal had been given in February, April, June, August, October and November 2015, indicating a deepening downturn, with an intensified fall off now in fourth-quarter 2015. Current reporting remains consistent with a signal of unfolding recession. *Graphs 19 and 21*, following, show the latest patterns of headline annual real growth in retail sales.

On a monthly basis, with seasonally-adjusted headline year-to-year CPI-U inflation up by 0.66% in December 2015, and up by 0.44% in November 2015 and 0.12% in October 2015, year-to-year real growth in December 2015 came in at 1.53%, November 2015 sales revised to 1.15% [previously up by 0.91%], with October 2015 sales revising to 1.51%, [previously up by 1.55%, initially up by 1.57%].

Separately year-to-year change in fourth-quarter real retail sales slowed to 1.40%—an intense signal of pending recession—down from 2.13% in third-quarter 2015.

**Consumer Liquidity Problems Continue to Impair Retail Sales.** Broadly discussed in [No. 777 Year-End Special Commentary](#) and briefly updated in prior [Commentary No. 780](#), the primary underlying issues restraining retail sales and residential real estate 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, let alone consumer-driven, real retail sales 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.

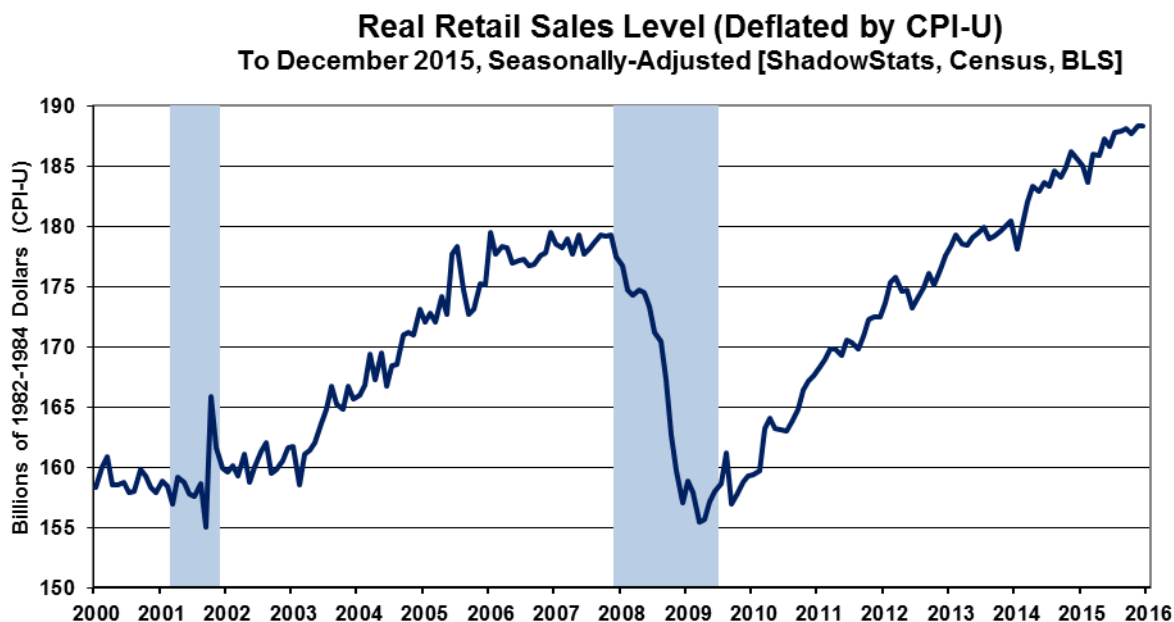
As official consumer inflation resumes its upside climb in the year ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by the general pattern of the ongoing real earnings difficulties discussed in the next section—these data should continue trending meaningfully lower, in what should be recognized shortly as a formal “new” recession.

**Real Retail Sales Graphs.** *Graph 18*, the first of the four graphs following, shows the level of real retail sales activity (deflated by the CPI-U) since 2000; *Graph 19* shows the year-to-year percent change for the same period. The level of headline monthly activity turned lower in October with an uptick in November and an unchanged December 2015 level, with recent headline growth largely dissipating in recent revisions, and now flattening out. Annual real growth has slowed markedly.

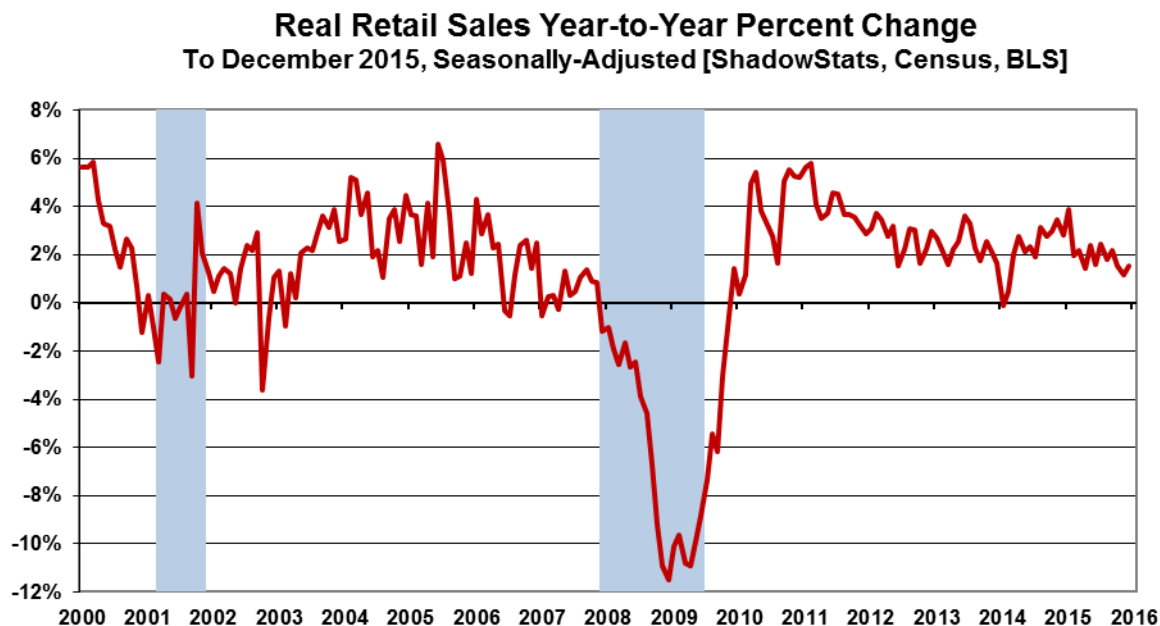
Year-to-year activity, which had plunged to a near-standstill in January and February 2014, had bounced back irregularly, hitting its recent high level in January 2015, spiked by negative inflation at the time. Yet, it fell back in February and has been fluctuating since, slowing sharply in fourth-quarter 2015, generating an intense, traditional recession signal, as discussed earlier. *Graphs 20 and 21* show the level of, and annual growth in, real retail sales (and its predecessor series) in full post-World War II detail.



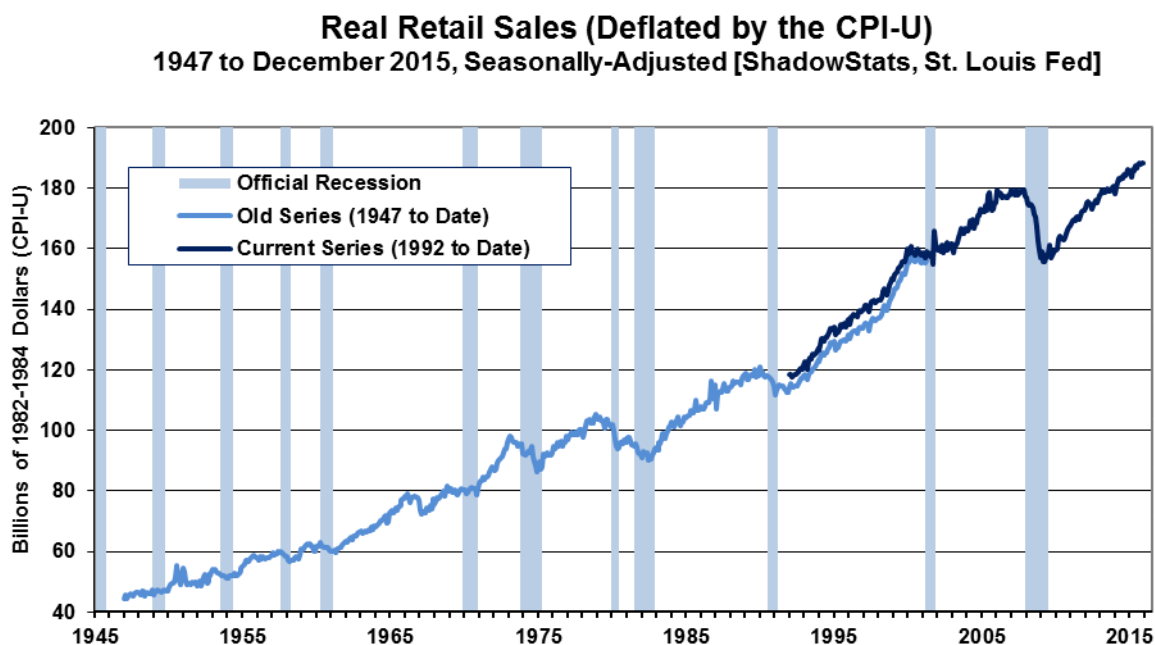
**Graph 18: Real Retail Sales (2000 to 2015)**



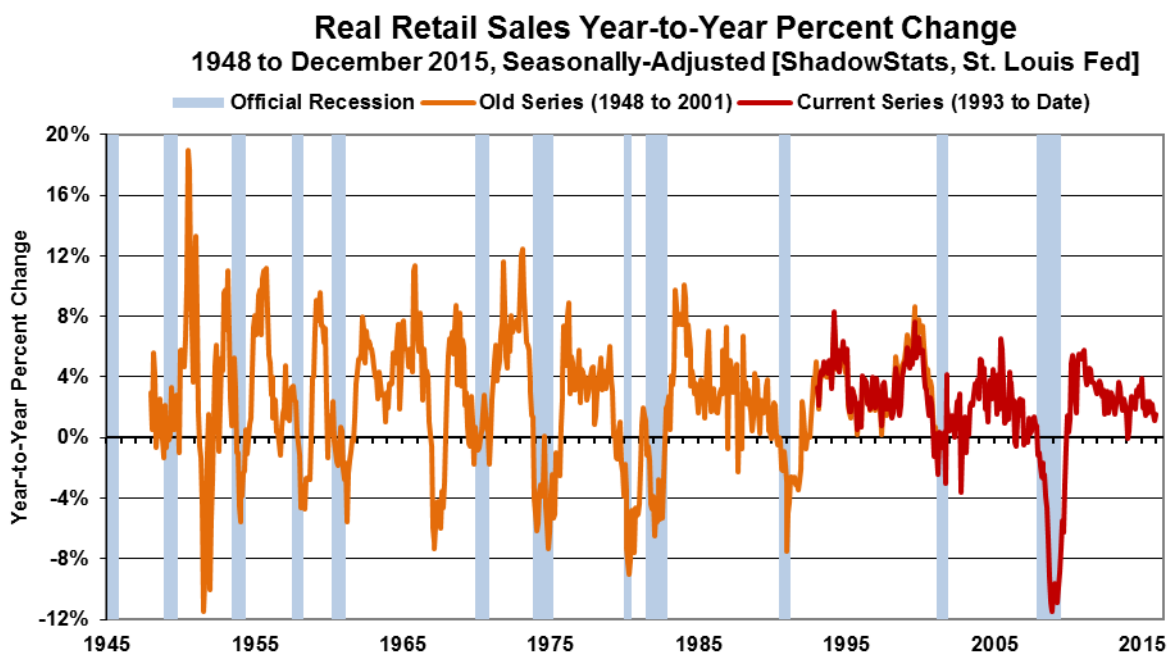
**Graph 19: Real Retail Sales (2000 to 2015), Year-to-Year Percent Change**



**Graph 20: Real Retail Sales (1947 to 2015)**



**Graph 21: Real Retail Sales (1948 to 2015), Year-to-Year Percent Change**



Irrespective of first-quarter 2015 reporting weakness in real retail sales, the current, topping-out process in the series, and the recovery in the headline industrial production series through year-end 2014, after which it turned down sharply (see prior [Commentary No. 780](#)), largely were due to the understatement of the rate

of inflation used in deflating retail sales and the 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, real 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—December 2015—Headline Monthly Gains Primarily Reflected Negative Monthly Inflation.*** The BLS published its estimates for real average weekly earnings in December 2015, coincident with the release of the December CPI-W. In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings rose by 0.26% in December 2015, versus an upwardly-revised 0.11% gain [previously up by 0.06%] in November 2015, versus an unrevised 0.49% gain [initially up by 0.54%] in October. With “no change” in hours worked, but a gain of 0.09% in wage levels, the bulk of the headline 0.26% “gain” in real earnings was due to the headline, monthly CPI-W contraction of 0.17% (-0.17%).

Year-to-year and seasonally-adjusted, annual growth in December 2015 real average weekly earnings rose to 1.81%, versus an upwardly revised 1.78% [previously up by 1.73%], and an unrevised 2.66% in October 2015. Not seasonally adjusted, annual growth in December 2015 rose to 1.03%, versus an upwardly revised 1.69% [previously up by 1.59%] in November 2015 and an unrevised 2.70% in October 2015.

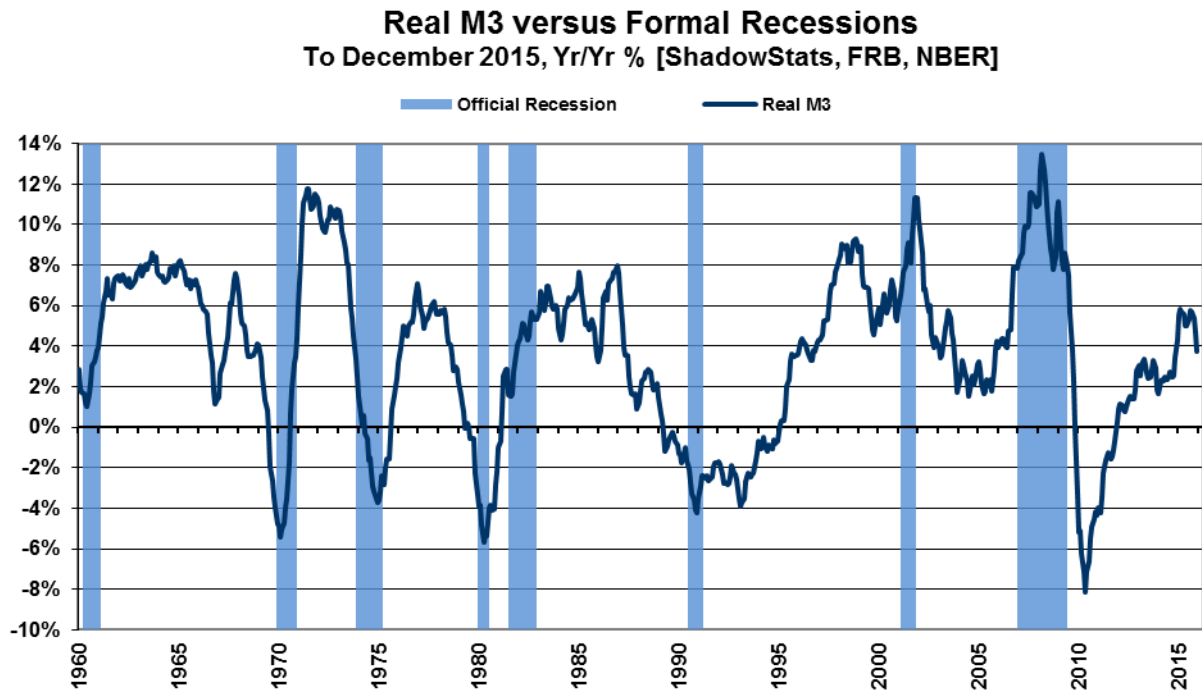
Both the monthly and annual fluctuations in this series were irregular, but current reporting remains well within the normal bounds of volatility, along with exceptions of unusual patterns resulting from negative inflation, depressed by falling gasoline prices. The headline detail here also reflected the usual surveying and seasonal-factor instabilities common to BLS payroll-survey reporting, and it is subject to significant revisions in the context of the pending annual benchmarking of the payroll-employment series scheduled for February 5th.

Found in the *Opening Comments* section, *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 in a minimal uptrend for the last two decades. 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—December 2015—Plunging Annual Growth.*** 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 rapidly is deepening anew, despite real annual M3 growth having rallied in positive territory for several years. As shown in the accompanying graph—based on December 2015 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in December 2015 M3 slowed to 3.8%, its lowest level since October 2014, from an unrevised 4.7% in November. The decline in the monthly rate of year-to-year change reflected both an increase in annual CPI-U inflation (contributing 0.2% to the monthly decline) and a continuing decline in annual M3 growth (contributing 0.7% to the monthly decline, see [Commentary No. 779](#)).

**Graph 22: 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](#) and [No. 777 Year-End Special Commentary](#)).

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 the *Opening Comments*). Reality remains that the economic collapse into 2009 was followed by a plateau of low-level economic activity—no meaningful upturn, no recovery from or end to

the official 2007 recession—and the unfolding renewed downturn remains nothing more than a continuation and re-intensification of the downturn that began unofficially in 2006. Further discussion of this issue is found in [No. 742 Special Commentary: A World Increasingly Out of Balance](#) of August 10th, and most broadly in *Chapter 8* of the [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#).

## RESIDENTIAL INVESTMENT (December 2015)

**Contracting in Fourth-Quarter 2015, Housing Starts Showed a Smoothed Pattern of Faltering Stagnation.** Headline December 2015 housing starts took a minimal monthly tumble after rising sharply in November. Nonetheless, with full initial reporting of fourth-quarter 2015 activity in place, that locked in a fourth-quarter 2015 contraction versus third-quarter 2015 activity.

***Fourth-Quarter Housing Starts Fell at an Annualized Quarterly Pace of 8.5% (-8.5%).*** In terms of annualized quarterly change, the aggregate housing-starts count fell at an annualized-quarterly pace of 26.2% (-26.2%) in first-quarter 2015, rose at an annualized 96.3% pace in second-quarter 2015, and basically was flat with an unrevised 0.2% annualized third-quarter 2015 pace of growth. Based on the headline reporting for December 2015, fourth-quarter 2015 housing starts fell at an annualized pace of 8.5% (-8.5%), which was line with a developing headline fourth-quarter 2015 GDP contraction, discussed in the *Opening Comments*.

***Smoothed Numbers.*** Nonetheless, the general pattern of low-level stagnation continued, with its up-trending six-month moving-average pattern faltering again with the most-recent headline detail. This pattern is viewed best in terms of the longer-range historical graph of aggregate activity (*Graph 24*) at the end of this section, and particularly in the context of the headline activity, smoothed by a six-month moving average, as shown in *Graph 7* in the *Opening Comments* section. While the minor upside trend in the broad pattern of stagnation in the aggregate series appears to have stalled, total December housing-starts activity remained well below any recovery level, down from its pre-recession high by 49% (-49%).

Separately, the dominant, single-unit housing starts component of the series (*Graphs 8 and 9* in the *Opening Comments*) remained down by 58% (-58%) from its January 2006 pre-recession peak.

Reflected in the smoothed graphs in the *Opening Comments*, the aggregate housing-starts series continued to falter from what had been an earlier, minimal uptrend. Such encompassed an uptick in the six-month smoothed single-unit activity (*Graph 9*) and a downtick in the smoothed multiple-unit starts (*Graph 11*).

Over time, the bulk of the extreme, reporting instability and what had been the minimal uptrend in the aggregate series was due largely to particularly-volatile reporting in the multiple-unit housing-starts category (apartments, etc.). Recent activity in multiple-unit starts had recovered to above pre-recession levels, again, in the context of extreme month-to-month volatility. Even so, the recent impact of that recovery has been fading, likely in response to the intensifying general economic slowdown. Otherwise, the multiple-unit series detail largely has been lost in aggregate housing starts series.

***Consumer Liquidity Problems Continue to Impair Housing Activity.*** Broadly discussed in [No. 777 Year-End Special Commentary](#) and briefly updated in prior [Commentary No. 780](#), the primary underlying

issues restraining current activity in residential real estate, and in retail sales, 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, particularly tied to homeowner real estate.

On a per-structure basis, housing starts volume, again, is dominated by the single-unit category, which has remained broadly stagnant, with something of an uptrend at present, on a smoothed basis. It has continued to hold at a low level of activity, since hitting bottom in early-2009. The private housing sector never recovered from the business collapse of 2006 into 2009.

Without real (inflation-adjusted) growth in household income and without the ability or willingness to take on meaningful new debt, the consumer simply has not had the wherewithal to fuel sustainable economic growth. There remains no chance of a near-term, sustainable turnaround in the housing market, without a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

***December 2015 Housing-Starts, Headline Reporting.*** Headline December 2015 Housing Starts declined minimally, assuring a fourth-quarter 2015 quarterly contraction in the series. In the context of minor upside revisions to October and November reporting, the Census Bureau reported January 20th, a statistically-insignificant, seasonally-adjusted, headline monthly decline of 2.5% (-2.5%) +/- 9.5% (all confidence intervals are expressed at the 95% level) in December 2015 housing starts. Such followed a revised 10.1% gain [previously up by 10.5%] in November, and a revised decline of 11.3% (-11.3%) [previously down by 12.0% (-12.0%), initially down by 11.0% (-11.0%)] in October. Net of prior-period revisions, December 2015 housing starts fell by 2.0% (-2.0%) for the month, instead of the headline decline of 2.5% (-2.5%). Level-of- activity detail is plotted in *Graphs 4 to 7 of the Opening Comments*, and in *Graphs 23 and 24* at the end of this section.

Year-to-year change in the seasonally-adjusted, aggregate December 2015 housing-starts measure was a statistically-insignificant gain of 6.4% +/- 14.3%, versus a revised annual gain of 17.1% [previously up by 16.5%] in November 2015, and a revised annual contraction of 0.7% (-0.7%) [previously down by 1.6% (-1.6%), initially down by 1.8% (-1.8%)] in October 2015.

The December 2015 decline of 2.5% (-2.5%) in total housing starts reflected headline monthly contractions of 3.3% (-3.3%) in the “one unit” category and 3.4% (-3.4%) in the “five units or more” category, with some offsetting minimal gain in the otherwise unreported “two to four units” category (see the later “multiple-unit” discussion). As most commonly is the case, not one of the headline changes was statistically significant, on either a month-to-month or a year-to-year basis.

***By-Unit Category (See Graphs in the Opening Comments).*** Where the irregular housing starts series can show varying patterns, that partially is due to a reporting mix of residential construction products, with the largest physical-count category of one-unit structure housing starts—generally for individual consumption, resulting in new home sales—versus multi-unit structure starts that generally reflect the building of rental and apartment units.

Housing starts for single-unit structures in December 2015 declined month-to-month by a statistically-insignificant 3.3% (-3.3%) +/- 9.9%, following a revised gain of 11.0% [previously up by 7.6%] in November, and a revised monthly decline of 3.5% (-3.5%) [previously down by 3.6% (-3.6%), initially



down by 2.4% (-2.4%)] in October. Single-unit starts for December 2015 showed a statistically-insignificant year-to-year annual gain of 6.1% +/- 13.3%, versus a revised gain of 18.5% [previously up by 14.6%] in November 2015, and a revised 1.4% [previously up by 1.3%, initially up by 2.4%] gain in October 2015 (again see *Graphs 4, 5, 8 and 9 in the Opening Comments*).

Housing starts for apartment buildings (generally 5-units-or-more) in December 2015 fell month-to-month by a statistically-insignificant 3.4% (-3.4%) +/- 23.0%, versus a revised monthly gain of 9.9% [previously up by 18.1%] in November, and a revised monthly decline of 24.4% (-24.4%) [previously down by 25.9% (-25.9%), initially down by 25.5% (-25.5%)] in October. The statistically-insignificant December year-to-year gain of 8.6% +/- 32.8% followed a revised annual gain of 15.2% [previously up by 21.3%] in November 2015, and a revised annual decline in October 2015 of 3.6% (-3.6%) [previously down by 5.6% (-5.6%), initially down by 8.4% (-8.4%)].

Expanding the multi-unit housing starts category to include 2-to-4-units plus 5-units-or-more usually reflects the bulk of rental- and apartment-unit activity. The Census Bureau does not publish estimates of the 2-to-4-units category, due to statistical significance problems (a general issue for the aggregate series). Nonetheless, the total multi-unit category can be calculated by subtracting the single-unit category from the total category (see *Graphs 4, 5, 10 and 11 in the Opening Comments*).

Accordingly, the statistically-insignificant December 2015 monthly decline of 2.5% (-2.5%) in aggregate starts was composed of statistically-insignificant declines of 3.3% (-3.3%) in one-unit structures and a decline of 1.0% (-1.0%) in the multiple-unit structures categories (2-units-or-more, including the 5-units-or-more category). Again, these series all are graphed in the *Opening Comments* section.

**Housing Starts Graphs.** Headline reporting of housing starts activity is expressed by the Census Bureau as an annualized monthly pace of starts, which was 1,149,000 in December 2015, versus a revised 1,179,000 (previously 1,173,000) in November 2015. The scaling detail in the aggregate *Graphs 23 and 24* at the end of this section reflects those annualized numbers.

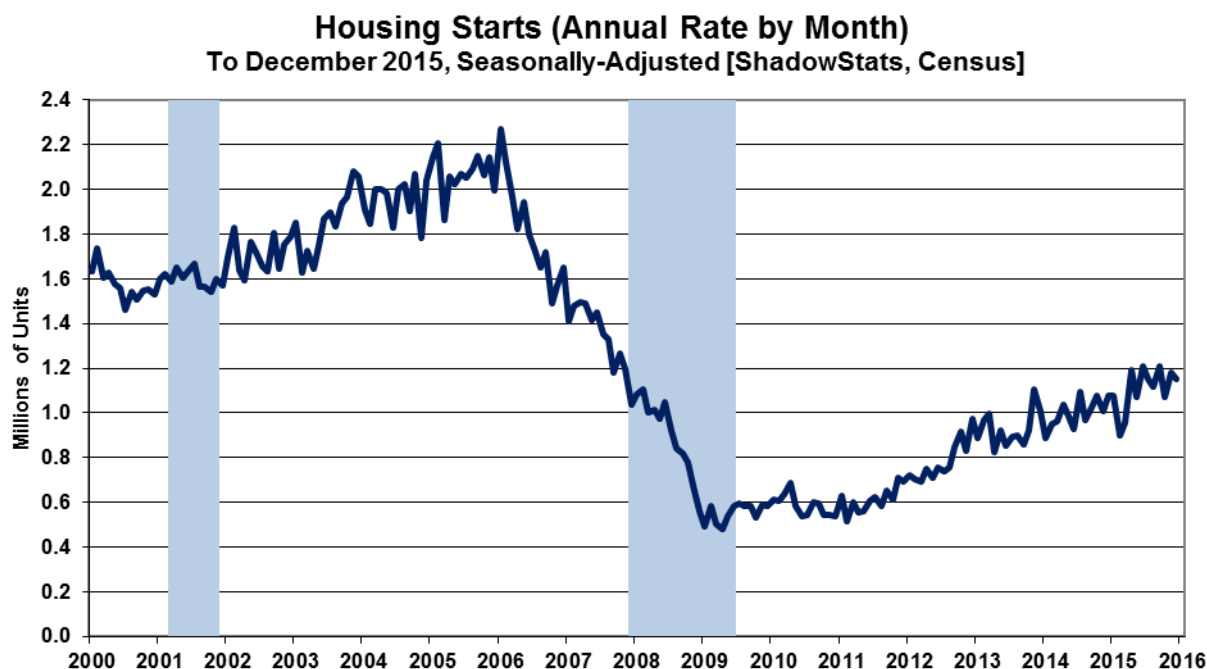
Nonetheless, given the nonsensical monthly volatility in reporting and the exaggerated effect of annualizing the monthly numbers in this unstable series, the magnitude of monthly activity and the changes in same, more realistically are reflected at the non-annualized monthly rate. Consider that the headline 236,000 month-to-month gain in the annualized April 2015 housing starts was larger than any actual total (non-annualized) level of monthly starts ever, for a single month. That is since related starts detail first was published after World War II.

Accordingly, the monthly rate of 95,750 units in December 2015, instead of the annualized 1,149,000-headline number, is used in the scaling of *Graphs 4 to 11 in the Opening Comments*. With the use of either scale of units, though, appearances of the graphs and the relative monthly, quarterly and annual percentage changes are otherwise identical, as can be seen in a comparison of *Graph 23* versus *Graph 6* in the *Opening Comments*.

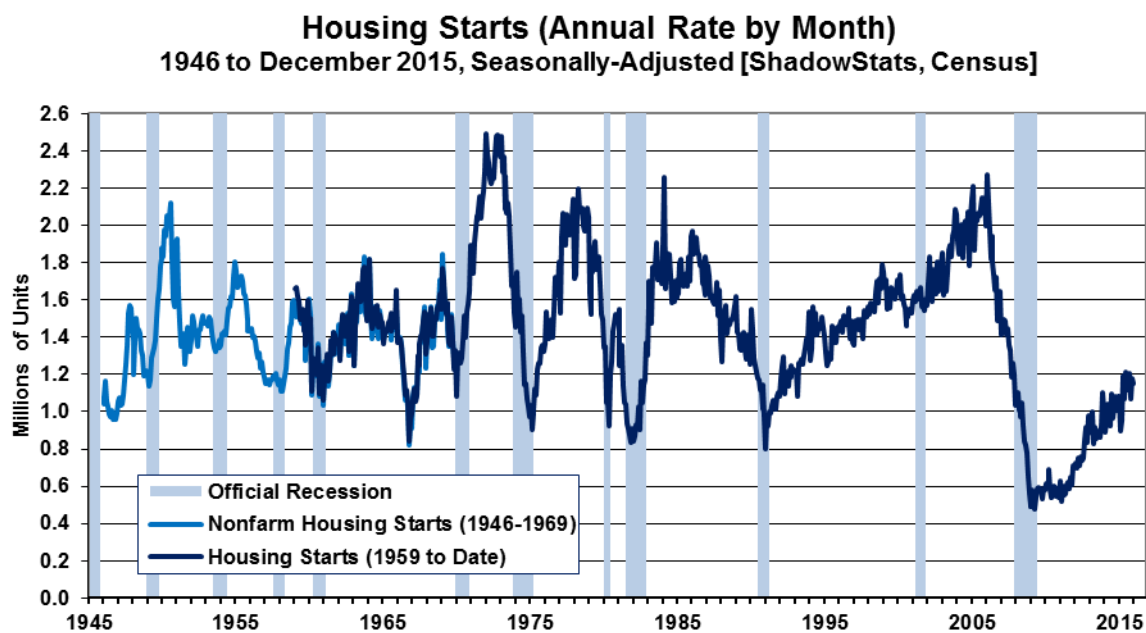
The record monthly low level of activity seen for the present aggregate series was in April 2009, where the annualized monthly pace of housing starts then was down 79% (-79%) from the January 2006 pre-recession peak. Against the downside-spiked low in April 2009, the December 2015 headline number was up by 140%, but it still was down by 49% (-49%) from the January 2006 pre-recession high. Shown in the historical perspective of the post-World War II era, current aggregate-starts activity is in up-

trending stagnation at low levels that otherwise have been at or near the historical troughs of recession activity of the last 70 years, as seen in accompanying *Graph 24*.

**Graph 23: Housing Starts (Annualized Monthly Rate of Activity), 2000 to Date**



**Graph 24: Housing Starts (Annualized Monthly Rate of Activity), 1946 to Date**



## WEEK AHEAD

### **Economic Reporting Should Continue Trending Weaker than Expected, Well into 2016 Reporting; Inflation Should Rise Anew—Along with Oil Prices—in Response to a Weakening Dollar.**

Fluctuating increasingly to the downside, amidst intensifying, negative headline reporting, market expectations for business activity nonetheless still gyrate with the latest economic hype in the popular media. That effect helps to hold the consensus outlook at overly-optimistic levels, with current expectations still exceeding underlying reality. Along with the broad trend in weakening expectations, however, movement towards looming recession recognition continues at an accelerating pace, as discussed in the *Opening Comments*, in [Commentary No. 778](#), in [No. 777 Year-End Special Commentary](#) and in the *Pending Releases* (GDP).

Headline reporting of the regular monthly economic numbers increasingly should weaken in the weeks and months ahead, along with much worse-than-expected reporting for at least the next several quarters of GDP (and GDI and GNP), for fourth-quarter 2015 and well into 2016. That includes mounting odds for an eventual outright quarterly contraction in fourth-quarter 2015 GDP activity, as well as pending downside revisions to recent GDP history in the 2016 annual benchmark revision, due on July 29th (see *Pending Releases* and the *Opening Comments*).

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. With positive seasonal adjustments countering some of the monthly weakness in gasoline prices, combined with particularly weak headline inflation one year ago, headline November 2015 CPI-U annual inflation rose to 0.5%, with further upside movement in annual inflation to 0.7% in December. The potential for some pullback in January CPI inflation, however, is discussed in today's CPI detail. Separately, fundamental reporting issues with the CPI are discussed here: [Public Commentary on Inflation Measurement](#).

Despite heavily-negative oil-supply circumstances, at present, significant inflation pressures should mount anew, at such time as oil prices rebound, a process that 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, most recently, in [No. 777 Year-End Special Commentary](#) in complement to [No. 742 Special Commentary: A World Increasingly Out of Balance](#), [No. 692 Special Commentary: 2015 - A World Out of Balance](#) and the 2014 Hyperinflation Reports: [The End Game Begins](#) and [Great Economic Tumble](#).

***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](#)).

Separately, discussed in [Commentary No. 778](#), a heretofore unheard of spate of “processing errors” has surfaced, currently involving surveys of earnings and construction spending. This is suggestive of deteriorating internal oversight and control of the U.S. government’s headline economic reporting. At the same time, it indicates an openness of the involved statistical agencies in revealing the reporting-quality issues. Combined with recent allegations of Census Bureau falsification of data in its monthly Current Population Survey (the source for the Bureau of Labor Statistics’ Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series (see [Commentary No. 669](#)).

#### ***PENDING RELEASES:***

**Existing- and New-Home Sales (December 2015).** December 2015 Existing-Home Sales are due for release tomorrow, Friday, January 22nd, from the National Association of Realtors (NAR), with the December 2015 New-Home sales report due from the Census Bureau on Wednesday, January 27th. Both Existing- and New-Home Sales will be covered in the next *Commentary No. 782* of January 28th.

Broadly discussed in [No. 777 Year-End Special Commentary](#) and briefly updated in prior [Commentary No. 780](#) and today’s Housing Starts comments, the primary issues constraining headline housing market activity remains intense, structural-liquidity constraints on the consumer. That circumstance, during the last eight-plus years of economic collapse and stagnation, has continued to prevent a normal recovery in broad U.S. business activity. There remains no chance of a near-term, sustainable turnaround in the housing market, until there has been a fundamental upturn in consumer and banking-liquidity conditions. Accordingly, prospects remain bleak for a sustainable increase in home-sales activity.

With a stagnating longer-term trend in headline Existing-Home Sales, further downside catch-up in month-to-month activity remains a fair possibility for December 2015 reporting. In addition, smoothed for extreme and nonsensical monthly gyrations, a continuing pattern of stagnation or downturn in New-Home Sales also is likely. Its pattern of stagnation turned from up-trending to down-trending in September. Monthly changes in activity here rarely are statistically-significant, amidst otherwise unstable headline monthly reporting and revisions.

Again, reflecting deteriorating consumer issues, both New- and Existing-Home Sales increasingly should continue to see downside volatility in related headline reporting.

**New Orders for Durable Goods (December 2015).** The Census Bureau will report December 2015 New Orders for Durable Goods on Thursday, January 28th. Net of irregular activity in commercial aircraft orders, aggregate orders likely continued a pattern of down-trending stagnation, consistent with some downside catch up.

Commercial aircraft orders are booked for the long-term—years in advance—so they have only limited impact on near-term production. Further, by their nature, these types of orders do not lend themselves to seasonal adjustment. As a result, the durable goods measure that best serves as a leading indicator to broad production—a near-term leading indicator of economic activity and GDP—is the activity in new orders, ex-commercial aircraft.

A related new series on domestic freight volume, which shows a high correlation with the durable goods orders series, will be added to regular ShadowStats coverage with the next week’s new orders detail.

**Gross Domestic Product (GDP)—Fourth-Quarter 2015, “Advance” or First Estimate.** The Bureau of Economic Analysis (BEA) will publish its first or “advance” estimate of fourth-quarter 2015 Gross Domestic Product (GDP) on Friday, January 29th. Discussed in the opening paragraphs of today’s *Opening Comments*, indications already are in place for an inflation-adjusted, real contraction in fourth-quarter 2015 GDP. Yet, the most likely initial headline reporting will be positive, albeit well below consensus expectations.

History has shown that the BEA will hold back in reporting a headline quarterly GDP contraction, when the consensus outlook is positive. The broad consensus appears still to be holding above 1.0%.

While the consensus could turn negative in the week ahead, such is not likely. Instead, with the underlying numbers so weak, the BEA likely will publish headline growth that is positive, but well below consensus. Both the consensus numbers and the BEA reporting then likely would turn negative in the second estimate of fourth-quarter GDP, on February 26th. Again, as discussed in the *Opening Comments* formal recession recognition (timed from December 2014) likely will follow in the wake of the eventual announcement of a headline contraction in fourth-quarter 2015 GDP.

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