

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

COMMENTARY NUMBER 785
U.S. Dollar and Gold, Nominal Retail Sales, Consumer
February 12, 2016

**Mounting Concerns for U.S. Economy Have Begun to
Trouble the Dollar, Boosting Gold and Silver**

**Significant Weakness Ahead in Headline Economic Reporting
Increasingly Should Roil the Markets**

**Minimal Headline Gain in Nominal Retail Sales
Generated by Shifting and Inconsistent Seasonal Adjustments**

**Level of Early-February 2016 Consumer Sentiment Index Fell 1.4% (-1.4%),
Down 4.9% (-4.9%) Year-to-Year**

**January 2016 Cass Freight Index Showed Continuing
Non-Recovery and Renewed Downturn**

PLEASE NOTE: The next regular Commentary, scheduled for Wednesday, February 17th, will cover January Industrial Production, Housing Starts, the Producer Price Index (PPI) and annual PPI revisions. A subsequent missive on Friday, February 19th will cover the January Consumer Price Index (CPI), annual CPI revisions and related Real Retail Sales and Earnings.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Weakening U.S. Dollar and Spiking Gold Price—Impact of a Weakening Economy and Mounting Systemic-Liquidity Concerns. Broadly-based and rapidly increasing acceptance in the global markets of serious U.S. economic problems has started to hit the exchange rate value of the U.S. dollar. A weakening dollar, perceptions of dwindling prospects for aggressive rate hikes by the Federal Reserve, and mounting global-market concerns as to financial-system stability all have combined to boost gold and silver prices. Global equity markets generally have not responded well to these circumstances.

Exacerbating market difficulties, U.S. economic reporting in the near-term should continue to deteriorate markedly, not only with generally downside surprises and continuing weakness ahead for monthly data, such as industrial production, but also with downside revisions to, and outright contractions in, near-term GDP reporting. These circumstances should help to keep further Fed tightening in check until after the November presidential election, and generally should keep downside pressure on the exchange-rate value of the U.S. dollar, with upside pressure on prices for precious metals.

As U.S. dollar selling intensifies, upside pressure on dollar-denominated oil prices also should become meaningful, irrespective of excess global oil supplies.

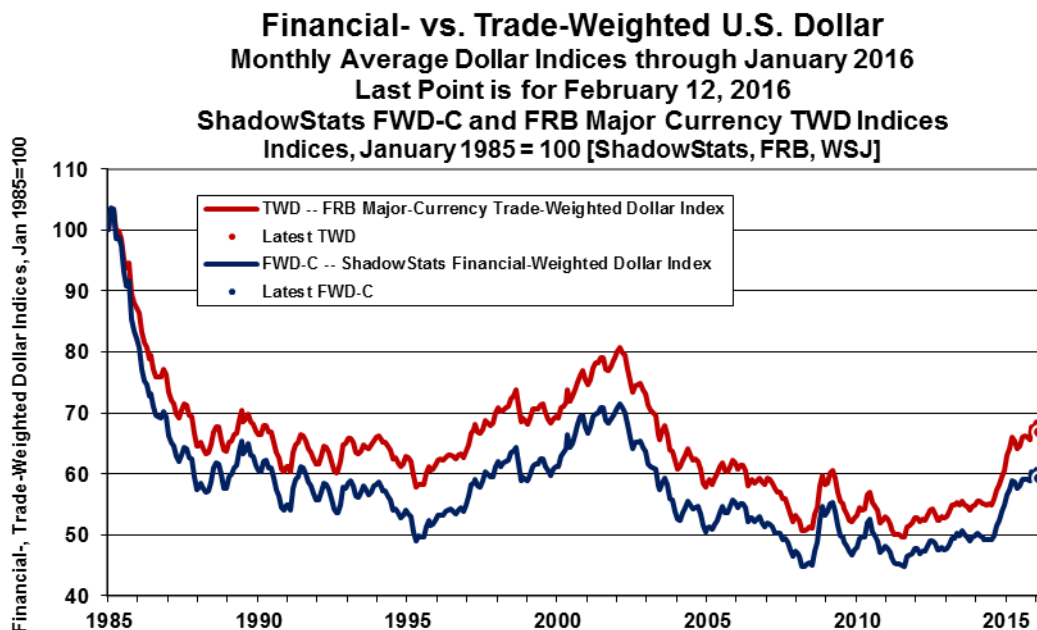
Markets perceptions appear to have moved off center, and increasingly difficult times likely lie ahead. As the economy deteriorates, the Fed again will be forced into “easing,” into accommodating liquidity for a U.S. Treasury faced with larger fiscal shortfalls, and into maintaining adequate liquidity in domestic and global banking systems. The decision to prevent systemic collapse at any cost was made in 2008.

A significant crisis breaking before the November election is a fair bet, with likely significant impact on the political circumstance. Where underlying U.S. economic reality still is much weaker than headline perceptions, disgruntlement on Main Street U.S.A. already has pushed the upcoming election into unconventional directions.

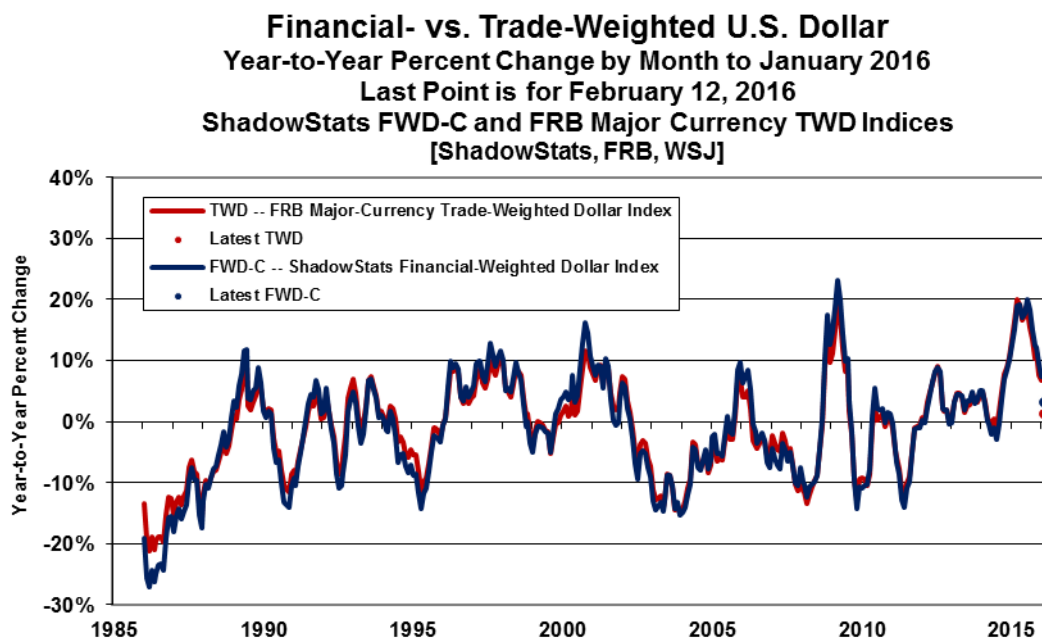
These areas generally are as discussed in [No. 777 Year-End Special Commentary](#). As noted there, the big problem ahead will be hyperinflation, not hyper-deflation: “Having taken little but stop-gap measures in 2008, the Federal Reserve and the U.S. Treasury still face problems of systemic insolvency or instability in the near future. Some forecasters look for the current situation to evolve into a deflationary collapse of debt. While likely meaningful insolvencies in the global financial system loom, the process becomes hyper-deflationary only in the circumstance where the banking system collapses and money supply disappears, as happened in the 1930s. With the precedent of the Panic of 2008 in hand, much more likely is a systemic bailout, very possibly in the extreme, with hyperinflationary consequences. Those controlling the system already have made clear their desire in answer to the question raised by Robert Frost in his poem *Fire and Ice*; their choice appears solidly to be for the world to end in fire ([2014 Hyperinflation Report—The End Game Begins](#) page 26).”

In the context of shifting financial market conditions, updated here are the regular monthly plots of the U.S. Dollar (*Graphs 1 and 2*) and the three gold graphs (*Graphs 3, 4 and 5*) that normally would accompany—and will be refreshed again in—the February 19th CPI *Commentary No. 787*.

Graph 1: Financial- versus Trade-Weighted U.S. Dollar



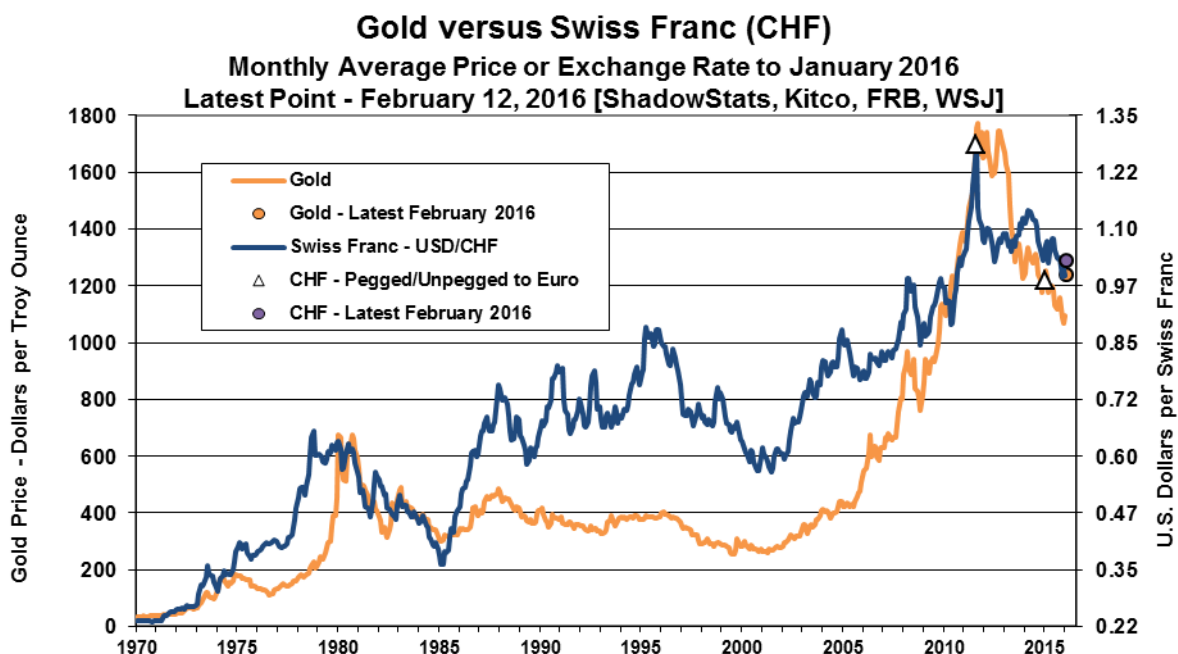
Graph 2: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar



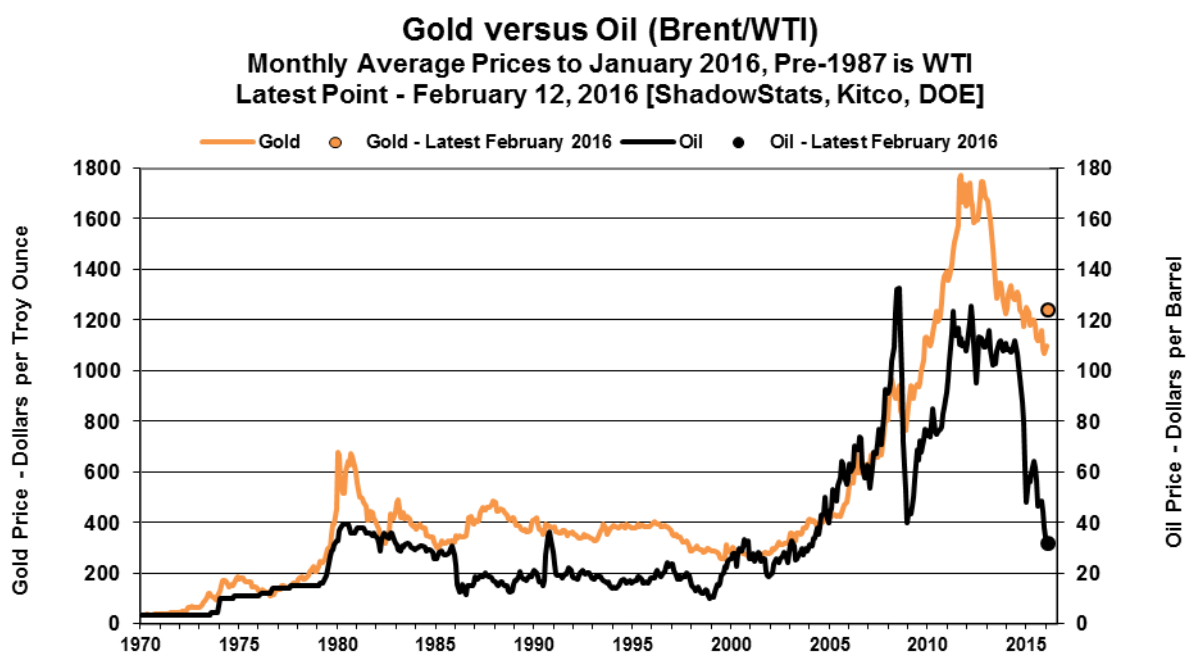
Detailed in [Commentary No. 772](#), the ShadowStats Financial-Weighted Dollar measure recently was expanded to incorporate that Chinese Yuan (CNY)/Renminbi (RMB).

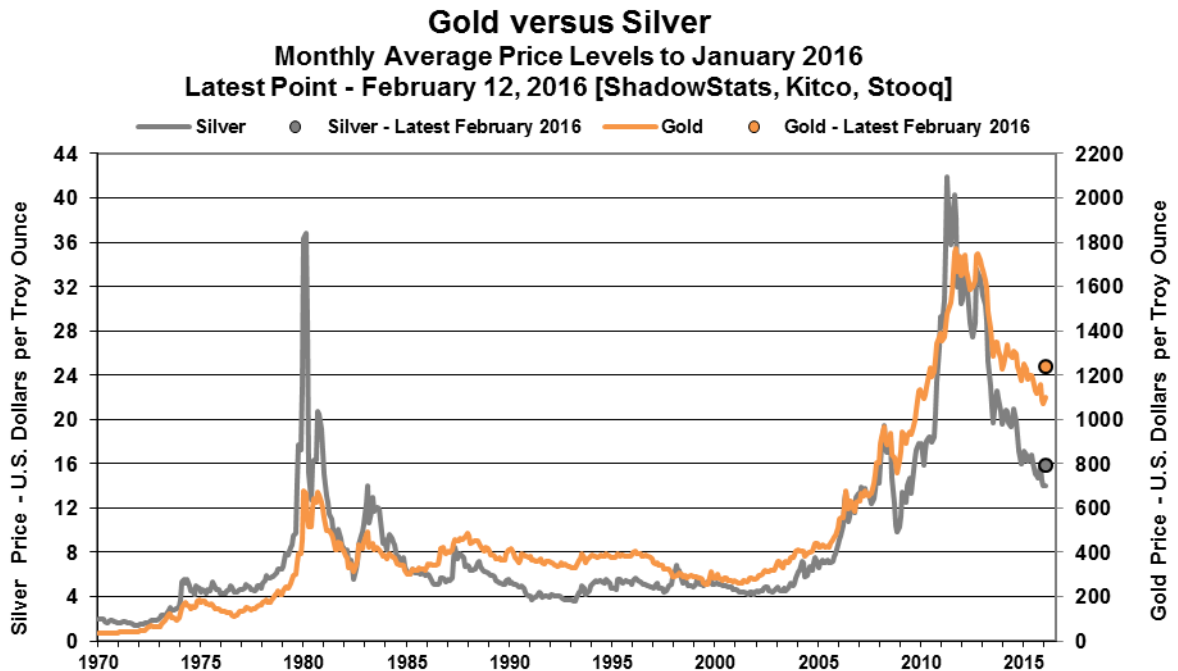
Reflecting the U.S. dollar strength since mid-2014, and exacerbated by a variety of jawboning and interventions of various forms, prices for gold, silver and oil have been hit particularly hard. Already starting to move off bottom with some flight from the dollar, those prices should rally sharply in the months ahead as the U.S. dollar comes under increasingly heavy, fundamental selling pressure.

Graph 3: Gold versus the Swiss Franc



Graph 4: Gold versus Oil



Graph 5: Gold versus Silver

Headline January Retail Sales Gain Was No More than Games with Shifting, Inconsistent Seasonal Adjustments. Without inconsistent shifting in seasonal factors, the January 2016 headline change would have been “unchanged” instead of up by 0.2% (up by 0.18% at the second decimal point). At work here is a pattern of distorted revisions, unique to the inconsistent reporting of the government’s concurrent-seasonal-factor-adjustment process, as seen regularly in the recent headline reporting of retail sales. The usual seasonal-factor games were at play, again, in January 2016 reporting, where the headline data reflected new seasonal-factor adjustments, but the purportedly comparable historical series did not. The only “comparable” headline historical detail published with today’s headline January 2016 sales data were the sales levels for the prior two months of December and November 2015, and the year-ago months of January 2015 and December 2014.

Revisions to the year ago periods are tip-offs as to how the current month’s seasonal factors have been altered. Against the month-to-month headline growth of 0.18% in January 2016, 0.17% of that came from inconsistent, shifting adjustment patterns. Of the 0.16% gain in December, 0.32% of that was set up in last month’s seasonal adjustment revisions. Of the 0.32% gain in November, 0.18% of that was set up in November 2015 seasonal adjustment revisions.

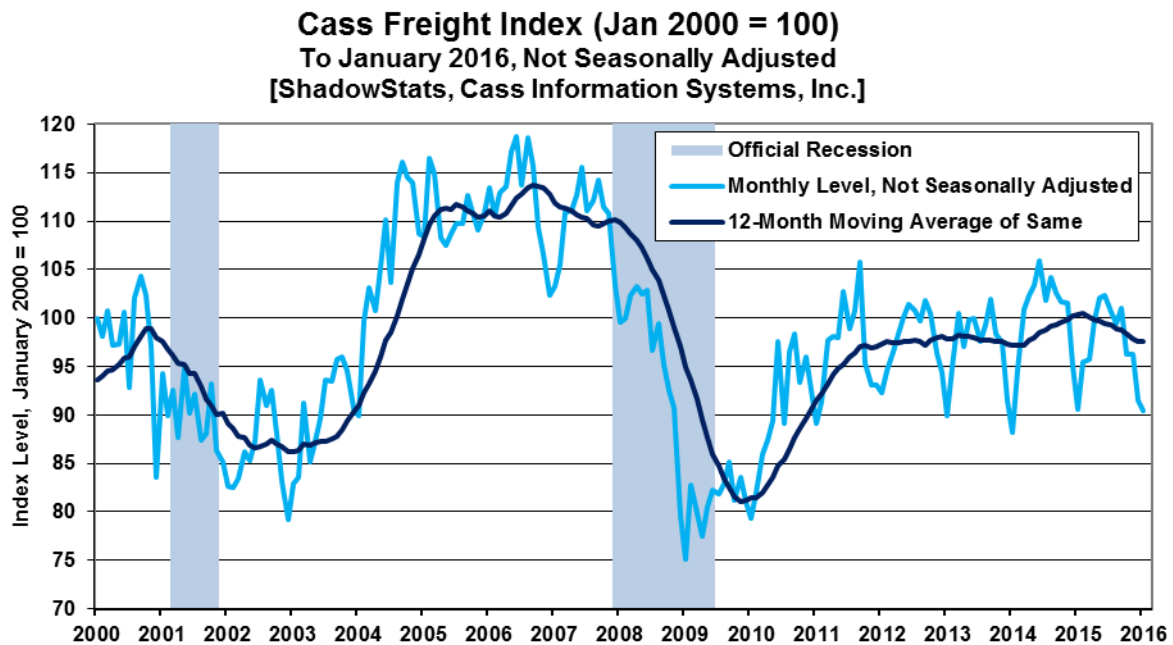
In today’s headline detail, the year-ago revisions simply were junk reporting, due solely to shifts in their seasonal adjustments that resulted from the unique calculations of the seasonal factors generated with the headline January 2016 detail. These revisions were not due to the availability of any new historical data back in December 2014 or January 2015, but rather due to just the inconsistent shifts in the published versus unpublished seasonal adjustments. Shifting patterns of relative quarterly growth in just the first-

and second-quarter 2015 also were seen due solely to the “inconsistent” revision to the adjusted January 2015 numbers.

Given Census Bureau reporting procedures, the headline detail is not comparable with most earlier reporting. As a result, current data can reflect growth shifts from earlier periods, without those specifics being published. The adjustment issues here are the same as with the employment and unemployment series. 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](#) and discussed in prior [Supplemental Commentary No. 784-A](#). 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 (see the *Reporting Detail* for further discussion).

Continuing “Other” Confirmation of Non-Recovery and Renewed Downturn. Beyond the negative signals from today’s release of early-February 2016 Consumer Sentiment—discussed in the *Consumer Liquidity* update later in these *Opening Comments*—yesterday’s publication of the headline January 2016 [Cass Freight Index](#)™ suggested ongoing difficulties in the broad North American economy.

Graph 6: Cass Freight Index to (2000-2015), Trailing 12-Month Average vs. Unadjusted Monthly Index



Introduced in [Commentary No. 782](#), ShadowStats published graphic detail on the Cass index, a measure of North American freight volume, as calculated by, and used with the permission of Cass Information Systems, Inc. The plot in *Graph 6* reflects the monthly numbers updated through January 2016. The headline detail, down month-to-month by 1.3% (-1.3%) and year-to-year 0.2% (-0.2%), is not adjusted for broad seasonal patterns, such as retailers stocking for the holiday shopping season. Accordingly,

ShadowStats plots the series using a trailing twelve-month average, which tends to neutralize regular seasonal patterns over the period of a year, along with the unadjusted monthly detail plotted in the background. For comparison purposes in [No. 782](#), the ShadowStats Corrected Real Durable Goods Orders Series, Ex-Commercial Aircraft, also smoothed using a twelve-month moving average, showed highly correlated activity with the Cass index. Patterns of non-recovery in the economy and renewed downturn in business activity were re-confirmed in the latest headline detail.

Today's Commentary (February 12th). The balance of these *Opening Comments* provides summary coverage of the January report for nominal Retail Sales. The latest *Hyperinflation Outlook Summary* is found in prior [Commentary No. 783](#). The *Week Ahead* previews January 2016 Industrial Production, Housing Starts, the Consumer Price Index (CPI) and related real Retail Sales and Earnings, and the Producer Price Index (PPI).

Nominal Retail Sales—January 2016—Headline Gain of 0.2% Would Have Been “Unchanged” but for Covert Shifts in Seasonal Adjustments. The headline monthly gain in January 2016 nominal Retail Sales of 0.2% (0.18% at the second decimal point), resulted from underlying, and historically-inconsistent seasonal-factor shifts, which boosted headline January 2016 activity by 0.17%, as discussed in the opening paragraphs of these *Opening Comments*, and in the *Seasonal-Factor Distortions* section of the *Reporting Detail*. The issues here were within the usual inconsistent and non-comparable shifts in the published seasonally-adjusted data, based on monthly “concurrent seasonal adjustment” calculations and the lack of relevant publication of consistent, historical data. Accordingly, using old-fashioned consistent reporting, headline nominal January 2016 retail sales likely were “unchanged” at 0.0% month-to-month.

Separately, before inflation consideration, seasonally-adjusted, annual nominal growth jumped sharply against an extraordinarily-weak January 2015, which purportedly had been hammered by bad weather. In nominal terms, year-to-year change in sales widened to 3.4% in January 2016, versus 2.4% in December 2015.

Nominal (Not-Adjusted-for-Inflation) Retail Sales—Headline Detail. In the context of an upside revision to headline December 2015 retail sales, and boosted by the implied seasonal-factor shifts from an upside revision to January 2015 and a negligibly-downside revision to December 2014 activity, January 2016 headline nominal sales rose by a stronger-than-expected 0.2%, at the first decimal point.

At the second decimal point, January 2016 retail sales showed a statistically-insignificant, seasonally-adjusted gain of 0.18%. Net of prior-period revisions, nominal January retail sales rose by a still statistically-insignificant 0.41%. Such followed a statistically-insignificant, upwardly-revised monthly gain of 0.16% in December, and a downwardly-revised gain of 0.32% in November.

Year-to-Year Annual Change. Year-to-year change in nominal January 2016 retail sales was a statistically-significant increase of 3.44%, versus an upwardly revised 2.44% in December 2015 and an unrevised 1.59% in November 2015.

Annualized Quarterly Changes. Reflecting the inconsistent seasonal-adjustment shifts both in the current and year-ago data, the pace of annualized nominal retail sales decline in first-quarter 2015 narrowed to a contraction of 4.26% (-4.26%), the worst quarter-to-quarter showing since the economic collapse. Once again, these revisions to first-quarter 2015 had nothing to do with better-quality historical detail, only with the use of concurrent seasonal-adjustment revisions to help shift headline sales activity into current headline reporting.

In like manner, with the creeping seasonal-factor inconsistencies moving into January 2015, relative second-quarter 2015 retail sales growth softened to a revised annualized growth rate of 6.57%, while the annualized third-quarter 2015 growth held at an unrevised 4.51% annualized gain. Revised reporting for fourth-quarter 2015 nominal retail sales had the annualized fourth-quarter 2015 nominal growth rate at 1.00%. Based solely on January 2016, first-quarter 2016 growth was on track for an annualized nominal gain of 1.59%.

With CPI-U about to undergo annual revisions, revised real, annualized quarterly real retail sales growth will be updated with the CPI-U *Commentary No. 787* of Friday, February 19th. That said, adjusted for realistic inflation (see [No. 777 Year-End Special Commentary](#)), real retail sales and the broad economy never truly recovered from the economic collapse into 2008 and 2009, impaired by consumer liquidity conditions discussed in the next section.

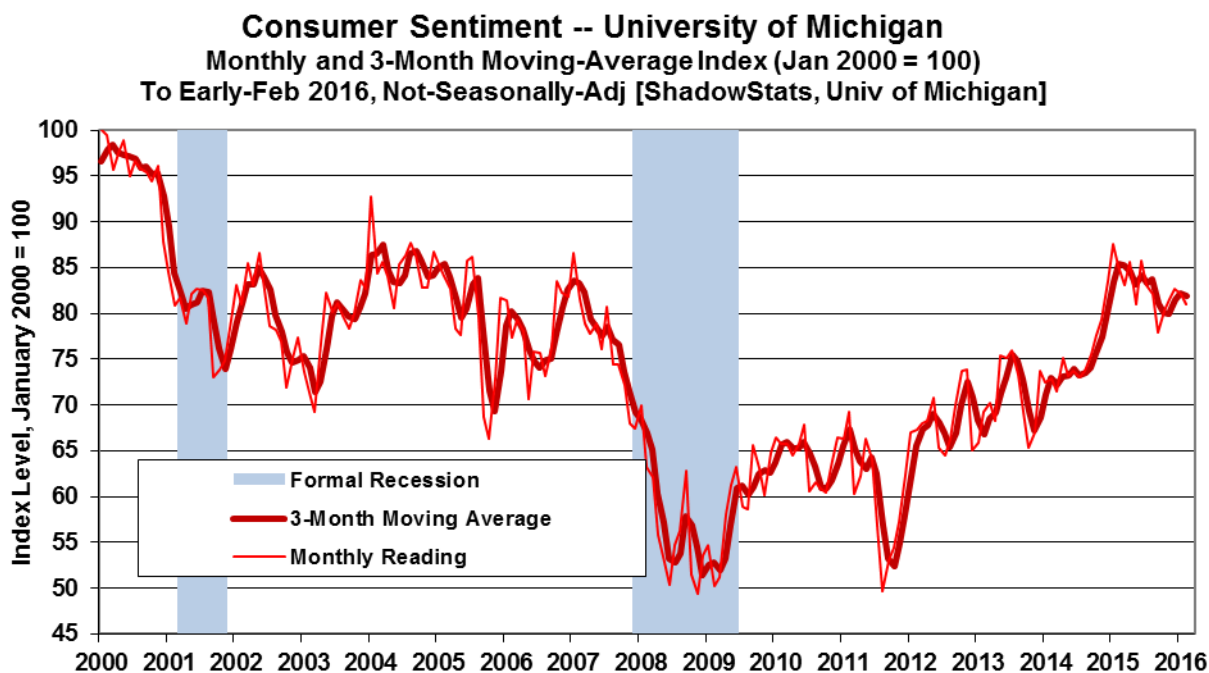
Likely-Downside Annual Retail Sales Revisions Scheduled for April 29th. The annual benchmark revision of retail sales will be on April 26, 2016. Encompassing results of the 2014 Annual Retail Trade Series and the long-delayed final results from the 2012 Economic Census, the historical Retail Sales history (and related July 29th GDP benchmark revisions) should suffer meaningful down side revisions. Downside revisions have been the common experience over time, where overly-optimistic assumptions—standardly built into headline economic reporting—generally are brought down to more-realistic levels with underlying, hard data.

Real (Inflation-Adjusted) Retail Sales—January 2016. The nominal monthly gain of 0.18% in January 2016 retail sales was before accounting for inflation. The monthly change in real retail sales for December awaits the headline estimate of the CPI-U consumer inflation for December 2015, in the next *Commentary No. 787* of Friday, February 19th. Shifting seasonal-adjustment factors in the CPI-U annual revisions could alter the headline detail, but as discussed in the *Week Ahead* section, the headline CPI-U outlook is for roughly a 0.1% (-0.1%) decline in headline monthly inflation, which would boost the headline gain in real Retail Sales by a parallel amount. Annual inflation should remain positive, muting the headline annual gain in inflation-adjusted activity.

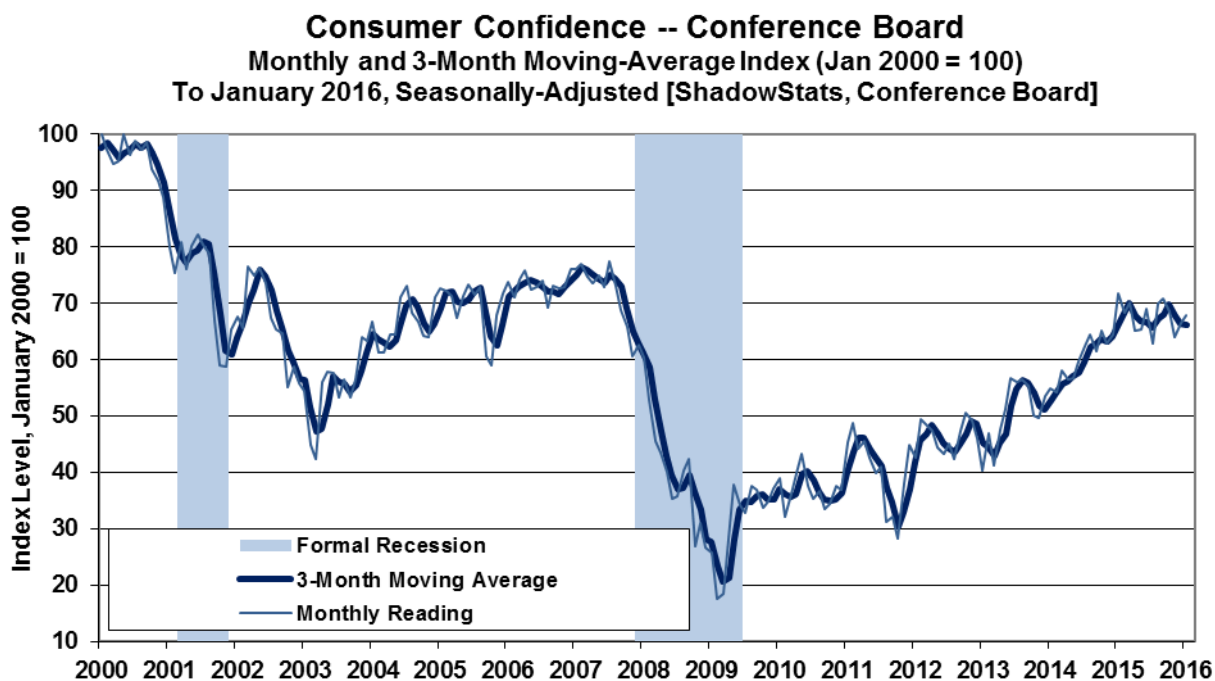
Consumer Liquidity—Updated December Consumer Credit and Early-February Consumer Sentiment. Constraining retail sales activity, the consumer remains in an extreme liquidity bind with weakening confidence, discussed broadly in [No. 777 Year-End Special Commentary](#) and updated here (previously updated in [Commentary No. 783](#)). Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise. This update covers today's (February 12th) release of Consumer Sentiment

(early-February 2016) and the February 5th update of Consumer Credit Outstanding (December 2015). Neither release altered the pre-existing, generally-bleak outlook for consumer conditions.

Graph 7: Consumer Sentiment Index to Early-February 2016 (University of Michigan)



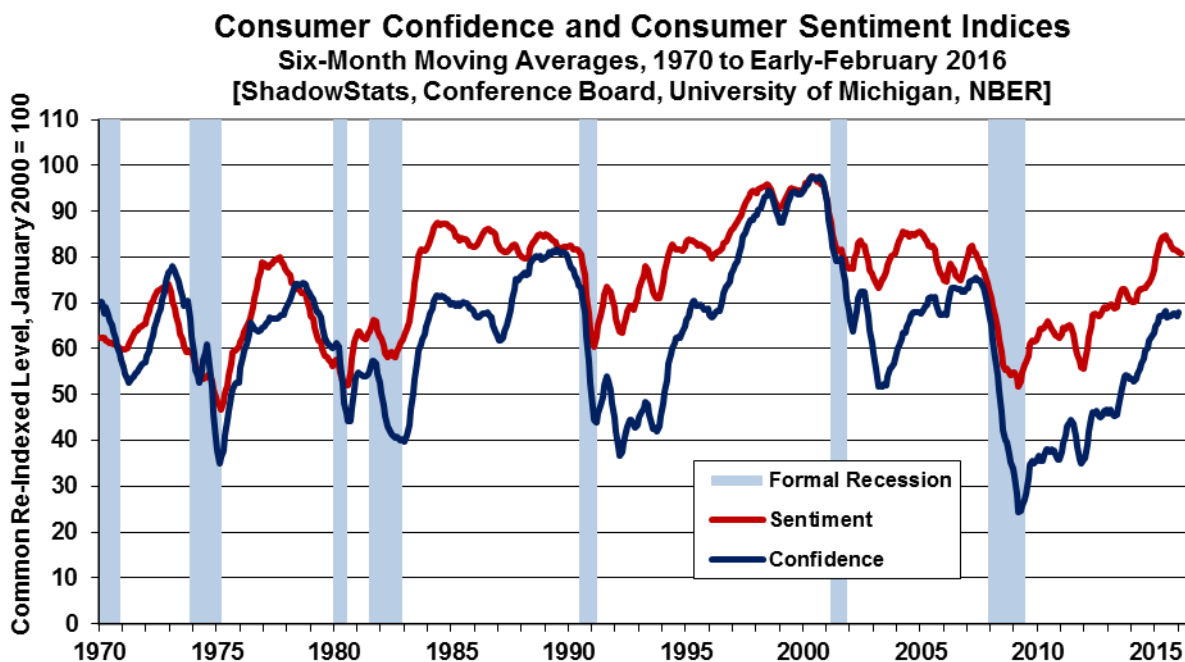
Graph 8: Consumer Confidence to January 2016



Shown in *Graph 7*, this morning's release of the University of Michigan's early-February 2016 Consumer Sentiment Index initially turned down for the month, along with related downticks in the three- and six-month moving averages of the series. Those measures also moved lower in January 2016. The headline index level was down by 1.4% (-1.4%) for the month, and down by 4.9% (-4.9%) from the year-ago, full-month reading for February 2015.

Previously published, the Conference Board's seasonally-adjusted (unadjusted data are not available) Consumer-Confidence Index (*Graph 8*) notched higher in January 2016, by 1.9%, but the index level was down year-to-year by 5.5% (-5.5%). No initial estimate of February detail will be available until February 23rd. Both the Conference Board and University of Michigan's measures had increased month-to-month in December 2015.

Graph 9: Comparative Consumer Confidence and Sentiment (6-Month Moving Averages) since 1970



For purposes of showing the Consumer Confidence and Consumer Sentiment measures on a comparable basis, the graphs 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.

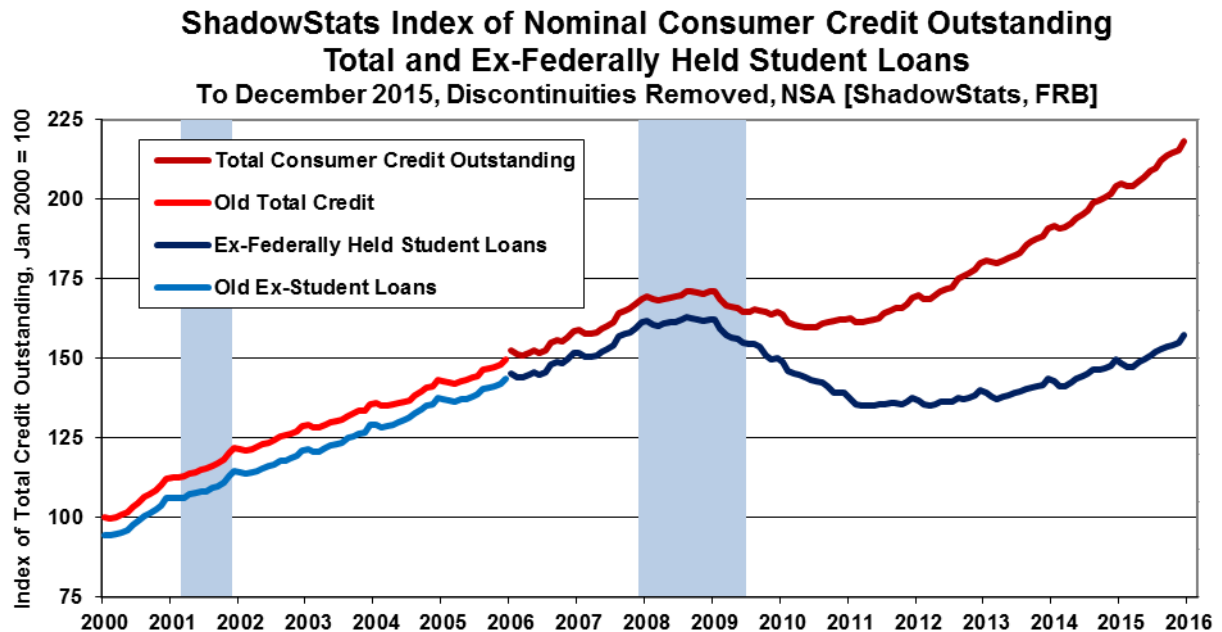
Both measures remain below near-term peaks. The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in [Commentary No. 764](#)), and often are highly volatile month-to-month, as a result. With increasingly-negative, headline financial and 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, and those factors likely contributed to the headline advance-February reading.

Smoothed for irregular, short-term volatility, the two series remain at levels seen typically in recessions. Suggested in *Graph 9*—plotted for the last 45 years—the latest readings of Confidence (monthly through

January) and Sentiment (monthly through early-February) 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 sporadically into third-quarter 2015 GDP growth.

Consumer Credit Outstanding. Debt expansion can help make up for a shortfall in income growth. Shown in *Graph 10*, seasonal upticks again were seen both in student-loan activity as well as in total credit in the not-seasonally-adjusted Consumer Credit Outstanding series for December 2015. Not adjusted for inflation, post-2008 Panic, outstanding consumer credit has continued to be dominated by growth in federally-held 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 the December 2015 levels still reflecting a broad slowing in the aggregate growth of consumer debt outstanding (ex-student loans).

Graph 10: Index of Nominal Consumer Credit Outstanding to December 2015



The primary underlying issues restraining current retail sales activity remain the intense, structural-liquidity woes besetting the consumer. That circumstance—in the last eight-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity.

Without real growth in income, and without the wherewithal 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. Again, see [No. 777](#) for more-comprehensive detail.

[The *Reporting Detail* section includes additional Retail Sales detail.]

HYPERINFLATION WATCH

HYPERINFLATION OUTLOOK SUMMARY (The latest version: in [Commentary No. 783](#).)

REPORTING DETAIL

NOMINAL RETAIL SALES—January 2016

Headline Sales Gain of 0.2% Would Have Been “Unchanged” but for Covert Shifts in Seasonal Adjustments. The headline monthly gain in January 2016 nominal Retail Sales of 0.2% (0.18% at the second decimal point), resulted from underlying, and historically-inconsistent seasonal-factor shifts, which boosted the headline January activity by 0.17%, as discussed in the opening paragraphs of the *Opening Comments*, and in the *Seasonal-Factor Distortions* section of this *Reporting Detail*. The issues here were within the usual inconsistent and non-comparable shifts in the published seasonally-adjusted data, based on monthly “concurrent seasonal adjustment” calculations and lack of relevant publication of consistent, historical data. Accordingly, using old-fashioned consistent reporting, headline nominal January 2016 retail sales likely were “unchanged” at 0.0% month-to-month.

Separately, before inflation consideration, seasonally-adjusted, annual nominal growth jumped sharply against an extraordinarily-weak January 2015, which purportedly had been hammered by bad weather. In nominal terms, year-to-year change in sales widened to 3.4% in January 2016, versus 2.4% in December 2015.

Structural Liquidity Issues Constrain Consumer Economic Activity. Broadly discussed in [No. 777 Year-End Special Commentary](#) and briefly updated in today's *Opening Comments*, the primary underlying issues restraining current retail sales activity remain intense, structural-liquidity woes besetting the consumer. That circumstance—in the last eight-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity, 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.

Nominal (Not-Adjusted-for-Inflation) Retail Sales—January 2016. In the context of an upside revision to headline December 2015 retail sales, and boosted by the implied seasonal-factor shifts from an upside revision to January 2015 and a negligibly-downside revision to December 2014 activity, January 2016 headline nominal sales rose by a stronger-than-expected 0.2%, at the first decimal point, as reported this morning (February 12th) by the Census Bureau.

At the second decimal point, January 2016 retail sales showed a statistically-insignificant, seasonally-adjusted gain of 0.18% +/- 0.59% (this and all other confidence intervals are expressed at the 95% level). Net of prior-period revisions, nominal January retail sales rose by a still statistically-insignificant 0.41%.

Such followed a statistically-insignificant, revised month gain of 0.16% +/- 0.23% [previously a decline of 0.11% (-0.11%)] in December, and a downwardly-revised gain of 0.32% [previously up by 0.37%, initially up 0.22%] in November.

Year-to-Year Annual Change. Year-to-year nominal change in January 2016 retail sales was a statistically-significant increase of 3.44% +/- 0.82%, versus an upwardly revised 2.44% [previously up by 2.20%] in December 2015 and an unrevised 1.59% [initially up by 1.35%] in November 2015.

Annualized Quarterly Changes. Reflecting the inconsistent seasonal-adjustment shifts both in the current and year-ago data, the pace of annualized nominal retail sales decline in first-quarter 2015 narrowed to a contraction of 4.26% (-4.26%) [previously down by 4.48% (-4.48%), by 4.42% (-4.42%), by 4.23% (-4.23%), and initially down by 4.04% (-4.04%)], the worst quarter-to-quarter showing since the economic collapse. Once again, these revisions to first-quarter 2015 had nothing to do with better-quality historical detail, only with the use of concurrent seasonal-adjustment revisions to help shift headline sales activity into current headline reporting.

In like manner, with the creeping seasonal-factor inconsistencies moving into January 2015, relative second-quarter 2015 retail sales growth softened to a revised annualized growth rate of 6.57% [previously estimated at 6.81%], while the annualized third-quarter 2015 growth held at an unrevised 4.51% annualized gain. Revised reporting for fourth-quarter 2015 nominal retail sales had the annualized fourth-quarter 2015 nominal growth rate at 1.00% [previously up by 0.75%]. Based solely on January 2016, first-quarter 2016 growth was on track for an annualized nominal gain of 1.59%.

With CPI-U about to undergo annual revisions, revised real, annualized quarterly real retail sales growth will be updated with the CPI-U *Commentary No. 787* of Friday, February 19th. That said, adjusted for realistic inflation (see [No. 777 Year-End Special Commentary](#)), real retail sales and the broad economy never truly recovered from the economic collapse into 2008 and 2009.

January Core Retail Sales—Core Sales Growth. Reflecting an environment that still should be seeing rising food prices and a seasonally-adjusted decline [an unadjusted drop of 4.06% (-4.06%) per the Department of Energy] in gasoline prices, seasonally-adjusted monthly grocery-store sales were up by 0.85% in January 2016, with gasoline-station sales down by 3.10% (-3.10%) 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: January 2016 versus December 2015 seasonally-adjusted retail sales series—net of total grocery store and gasoline station sales—reflected a monthly gain of 0.39%, versus the official headline aggregate sales gain of 0.18%.

Version II: January 2016 versus December 2015 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—reflected a month-to-month gain of 0.31%, versus the official headline aggregate sales gain of 0.18%.

Likely-Downside Annual Retail Sales Revisions Scheduled for April 29th. Subsequent to the headline reporting of March 2016 nominal and real Retail Sales, respectively on April 13th and 14th, the Census Bureau has planned its annual benchmark revision of retail sales for April 26, 2016. Encompassing results of the 2014 Annual Retail Trade Series and the long-delayed final results from the 2012 Economic Census, the historical Retail Sales history (and related July 29th GDP benchmark revisions) should suffer meaningful down side revisions. Such has been the common experience over time, where overly-optimistic assumptions—standardly built into the headline economic reporting—generally are brought down to more-realistic levels with underlying, hard data.

Real (Inflation-Adjusted) Retail Sales—January 2016. The nominal monthly gain of 0.18% in January 2016 retail sales was before accounting for inflation. The monthly change in real retail sales for December awaits the headline estimate of the CPI-U consumer inflation for December 2015, in the next *Commentary No. 787* of Friday, February 19th. Shifting seasonal-adjustment factors pending in the CPI-U annual revisions could alter the headline detail, but as discussed in the *Week Ahead* section, the headline CPI-U outlook is for roughly a 0.1% (-0.1%) decline in headline monthly inflation, which would boost the headline gain in real Retail Sales by a parallel amount. Annual inflation should remain positive, muting the headline annual gain in inflation-adjusted activity (see the *Week Ahead* section).

Seasonal-Factor Distortions Generated the Headline Growth, and Other Reporting Instabilities.

Without inconsistent shifting in seasonal-adjustment factors, the January 2016 headline change would have been “unchanged” instead of up by 0.2% (up by 0.18% at the second decimal point), a pattern of distorted revisions, unique to the inconsistent reporting of the government’s concurrent-seasonal-factor-adjustment process, seen regularly recent headline reporting of retail sales. The usual seasonal-factor games were at play, again, in the January 2016 reporting, where the headline data reflected new seasonal-

factor adjustments, but the purportedly comparable historical series did not. The only “comparable” headline historical detail published with today’s headline January 2016 sales data were the sales levels for the prior two months of December and November 2015, and the year-ago months of January 2015 and December 2014.

Revisions to the year ago periods are tip-offs as to how the current, headline month’s seasonal factors have been altered. Against month-to-month headline growth of 0.18% in January 2016, 0.17% of that came from inconsistent, shifting adjustment patterns. Of the 0.16% gain in December, 0.32% of that was set up in last month’s seasonal adjustment revisions. Of the 0.32% gain in November, 0.18% of that was set up in November 2015 seasonal adjustment revisions.

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 generated with the headline January 2016 detail. These revisions were not due to the availability of any new historical data back in December 2014 or January 2015, but rather due to just the inconsistent shifts in the published versus unpublished seasonal adjustments. Shifting patterns of relative quarterly growth in just the first- and second-quarter 2015 also were seen due solely to the “inconsistent” revision to the adjusted January 2015 numbers.

Given Census Bureau reporting procedures, the headline detail is not comparable with most earlier reporting. As a result, current data can reflect growth shifts from earlier periods, without those specifics being published. The adjustment issues here are the same as with the employment and unemployment series. 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](#) and discussed in prior [Supplemental Commentary No. 784-A](#). 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.

Reflective of shifting seasonal adjustments in what would be fully comparable detail, if published, December 2014 detail effectively was unchanged [down by 0.001% (-0.001%)], but January 2015 detail revised higher by 0.17%, indicative of a relative shift in seasonality for the headline month-to-month January 2016 detail.

Seen broadly in reporting of the prior year, and again in the headline January 2016 data, the year-ago number most commonly was revised higher each month, with the effect—desired or otherwise—of boosting the seasonal adjustments for the headline month, minimizing the reporting of headline monthly contractions or maximizing the headline gains. All this happens without the specifics as to where headline activity has been shifted month-to-month. Full detail is available internally to the Census Bureau, but the Bureau chooses not to publish the detail.

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

WEEK AHEAD

Economic Reporting Should Continue on the Downside of Expectations, Pummeling the Dollar and Boosting Gold, Silver and Oil Prices. Moving to the downside, amidst intensifying, negative headline reporting, market expectations for business activity are deteriorating, even as reviewed in the popular media. The broad trend in weakening expectations for business activity has continued, and movement towards looming recession recognition has accelerated, as discussed in [Commentary No. 783](#) and in [No. 777 Year-End Special Commentary](#). Nascent negative reaction has surfaced in trading of the U.S. dollar, in related financial markets, with upside spikes seen to prices for gold and silver (see *Opening Comments*). Circumstances here also should limit further heavy selling in the oil market and begin to turn pricing there also to the upside.

Weaker headline reporting of the regular monthly economic numbers should increasingly be accompanied by much worse-than-expected—negative—reporting for at least the next several quarters of GDP (and GDI and GNP), for fourth-quarter 2015 and well into the current year. That includes mounting odds for an eventual outright quarterly contraction in revised 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.

CPI-U consumer inflation—intermittently driven lower in 2015 by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Although month-to-month headline inflation likely will be minimally on the downside for January 2016 (see *Pending Releases*), annual CPI-U should hold in positive territory. Monthly and annual inflation should turn increasingly positive in an environment of a weakening U.S. dollar and a related upturn in otherwise battered oil prices. Separately, fundamental reporting issues with the CPI are discussed here: [Public Commentary on Inflation Measurement](#). Those areas, the general economic outlook and longer range reporting trends also 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 [Supplemental Commentary No. 784-A](#) and [Commentary No. 695](#)).

Separately, discussed in [Commentary No. 778](#), a heretofore unheard of spate of “processing errors” has surfaced in recent surveys of earnings (Bureau of Labor Statistics) and construction spending (Census Bureau). 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 ongoing allegations in the last year or two of Census Bureau falsification of data in its monthly Current Population Survey (the source for the BLS Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series (see [Commentary No. 669](#)).

PENDING RELEASES:

Index of Industrial Production (January 2016). The Federal Reserve Board will release its estimate of the Index of Industrial Production for January 2016 on Wednesday, February 17th. Headline reporting detail remains a good bet, once again, to come in below what likely will be a minimally-negative consensus, along with continuing downside revisions to prior-period reporting. The headline January 2016 detail will set an early indication for ongoing quarterly and annual contractions in the series.

As one of the traditional markers of the onset of formal recession, a continuing downtrend in these numbers would intensify further the shift in consensus expectations towards a “new” recession.

Residential Construction—Housing Starts (January 2016). The Census Bureau will release January 2015 residential construction detail on Wednesday, February 17th. 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. While consensus expectations likely will be on the upside, as usually is the case with this series, those expectations also likely will be well shy of statistical significance.

Irrespective of the generally meaningless headline detail, the broad pattern of housing starts should remain consistent with the low-level, stagnant activity, seen in the series at present, where current activity still is down by about 49% (-49%) 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 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.

Producer Price Index—PPI (January 2016). The Bureau of Labor Statistics (BLS) will release the January 2016 PPI also on Wednesday, February 17th. The new data will be published in the context of revised weightings and seasonal adjustments. Odds favor a sharp, headline decline in wholesale inflation, at least on the goods side of the reporting, due to continued, meaningful weakness in oil prices and prices

of related products. The aggregate numbers, though, likely will benefit somewhat from more-positive “inflation” in the dominant services sector, which reflects counterintuitive pricing pressures from shifting margins.

Unadjusted oil prices fell in January 2016, as did gasoline prices. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices declined by 14.8% (-14.8%) and by 19.1% (-19.1%). Such was accompanied by a further decline of 4.1% (-4.1%) in unadjusted monthly-average retail-gasoline prices (Department of Energy). Where PPI seasonal adjustments for energy costs in January are slightly negative, they should intensify the monthly decline in adjusted energy prices.

Consumer Price Index—CPI (January 2016). The Bureau of Labor Statistics (BLS) will release the January 2016 CPI on Wednesday, February 17th. The headline January CPI-U should be on the downside-side by 0.1% (-0.1%) or so, plus or minus, reflecting continued weakness in unadjusted gasoline prices. A wildcard in this reporting will be the annual recalculations to the monthly seasonal-factor adjustments for the last five years. Such not only increases potential variability in the headline month-to-month seasonally-adjusted reporting (the unadjusted year-to-year inflation measure is not impacted), but quarterly shifts may alter patterns of annualized quarterly growth series such as Real Retail Sales and Real Earnings.

Even with a headline CPI-U monthly decline, and allowing for the month-to-month rebound in seen in headline January 2015 inflation, the year-to-year annual inflation rate for January 2016 likely will soften, but it should remain in positive territory, around 0.3%.

Average gasoline prices declined, again, in January 2016, down by 4.06% (-4.06%) for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). Where BLS seasonal adjustments to gasoline prices in January traditionally are minimally on the down-side, they should exacerbate the headline downturn in adjusted gasoline prices, barring significant seasonal-adjustment revisions and/or intervention-analysis by the BLS. As the seasonals stand, gasoline prices fell by enough to make a net-negative contribution of about 0.13% (-0.13%) to the aggregate, seasonally-adjusted monthly headline CPI-U change. Somewhat higher food and “core” (net of food and energy) inflation may provide some positive offset.

Annual Inflation Rate. Year-to-year, CPI-U inflation would increase or decrease in January 2016 reporting, dependent on the seasonally-adjusted monthly change, versus the adjusted, headline gain of 0.36% in January 2015 CPI-U (again 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 decline of 0.1% (-0.1%) in the January 2016 CPI-U would sink January 2016 annual inflation to roughly a positive 0.3% (plus-or-minus, depending on rounding).

Real Retail Sales (January 2016). Based on the headline monthly gain of 0.18% in nominal (not-adjusted-for-inflation) January 2016 Retail Sales (see the *Opening Comments* and *Reporting Detail*), the estimate of real (inflation-adjusted) Retail Sales for December 2015 will follow in ShadowStats

Commentary No. 787 of February 19th, in conjunction with the publication of detail on the headline January CPI-U and annual revisions to that seasonally-adjusted CPI-U series. With a good chance for a small month-to-month decline in January CPI inflation (see preceding CPI discussion), there is a parallel chance for real growth in January sales to be somewhat stronger than the headline nominal sales activity. The pace of annual CPI-U inflation, however, again should remain positive, with a continuing recession signal as suggested by low-level annual change real retail sales.

Constraining retail sales activity, the consumer remains in an extreme liquidity bind with weakening sentiment, as updated in the *Opening Comments* and as reviewed in [No. 777 Year-End Special Commentary](#) and updated in [Commentary No. 783](#). Without sustained growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise.
