

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

COMMENTARY NUMBER 787
January Consumer Price Index, GDP Outlook
February 20, 2016

January 2016 Annual Inflation Increased Across the Board:
CPI-U at 1.4%, CPI-W at 1.2%, ShadowStats at 9.0%

Annual CPI-U at 15-Month High

Headline January 2016 Monthly Inflation at 0.03%
Was 0.17% before Seasonal Adjustments

Revisions to Seasonally-Adjusted Inflation Suggested Much-Weaker
Fourth-Quarter 2015 GDP in Mid-Year Benchmarking

Fourth-Quarter GDP Contraction Still Pending

PLEASE NOTE: The next regular Commentary, Thursday, February 25th will cover January New Orders for Durable Goods, and New- and Existing-Home Sales, with a subsequent missive on Friday, February 26th, covering the first revision to fourth-quarter 2015 GDP.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Fourth-Quarter 2015 GDP Growth Should Revise to a Contraction, Soon. A quarterly contraction is a possible outcome of the second estimate, first revision to fourth-quarter 2015 GDP next Friday, on February 26th. While market expectations are not in negative territory, yet, early-consensus forecasts appear to be for a downside revision to the initial, already-minimal 0.69% annualized growth rate, which is nothing more than statistical noise around “unchanged” or a small decline. The second revision is due on March 25th, with the annual benchmark revision due on July 29th.

Economic reporting of the last month has seen downside revisions and negative detail in the construction sector, with significant weakness in orders and inventories, all of which should dampen the upcoming GDP growth revision, along with potential further trade-deficit deterioration. Reporting of January industrial production and retail sales produced minimal upside revisions to fourth-quarter detail that should provide some small counterbalance to the other revisions. Additional downside revisions to fourth-quarter activity are likely in the month ahead, particularly in the production and retail sales series.

Enough underlying detail was in place for the first estimate of fourth-quarter GDP to have been in contraction. While the subsequent revisions should be enough to take headline real-growth reporting sub-zero, political pressures and reporting leeway within the Bureau of Economic Analysis (BEA) are enough to buy another month just above zero. Keep in mind that the quarterly growth rate is annualized, raised to the fourth power. Current headline growth of 0.69% means that the level of fourth-quarter 2015 GDP is just 0.17% above third-quarter 2015, and that likely is headed below 0.10% next week.

There Is Enough in Inflation Revisions and Benchmarking to Take the Headline GDP Under. Annual benchmark revisions to retail sales, industrial production and other major series, in the next two months or so, should signal downside revisions pending for the July 29th benchmark GDP revisions. Benchmarking invariably lowers estimates of historical economic growth patterns, as hard data increasingly replace the upside-bias modeling used with most headline monthly economic data.

An unusual twist also was seen in this last week, with the annual seasonal-adjustment revisions to the Producer Price Index (PPI) and the Consumer Price Index (CPI). Where extreme distortions from gasoline-price volatility played out in the adjusted monthly inflation numbers of last year’s headline reporting, Bureau of Labor Statistics (BLS) efforts to smooth out those distortions have shifted the adjusted headline quarterly inflations patterns fairly consistently for both the PPI (see [Commentary No. 786](#)) and the CPI (see the *Reporting Detail*). Such is suggestive of similar, general shifts pending in the GDP’s Implicit Price Deflator (IPD) inflation measure.

While the adjustment shifts balance out over the period of a year, sharply weaker quarterly inflation now is in place for second- and third-quarter reporting, with sharply stronger inflation in place for fourth- and first-quarter reporting. Stronger inflation means weaker inflation-adjusted growth and vice versa. The differences here are enough to turn the existing headline, inflation-adjusted 0.69% fourth-quarter GDP growth rate into an outright contraction, but with other shifts (some offsetting) in multiple quarters, that

adjustment should not be seen until the GDP benchmarking. The detail on real Retail Sales in the *Reporting Detail* section provides an example of the effects.

“New” Recession Continues to Unfold. On top of the standard headline economic reporting out of the federal government, independent indicators such corporate revenues and domestic freight activity show an ongoing and deepening economic downturn. Rapidly slowing, inflation-adjusted real M3 annual growth also is closing in on generating another “new” recession signal (see *Graph 14* in the *Reporting Detail*). Once the fourth-quarter 2015 GDP contraction is in place, in conjunction with what already is shaping up as a likely down quarter for first-quarter 2016 GDP, circumstances should move quickly, not only to recognize a formal new recession, but also to time that downturn from December 2014.

Today’s Commentary (February 20th). The balance of these *Opening Comments* provides summary coverage of January reporting on, and revisions to, the Consumer Price Index (CPI) and related series.

The *Week Ahead* previews January 2016 New Orders for Durable Goods and New- and Existing-Home Sales, plus the first revision to fourth-quarter 2015 Gross Domestic Product and initial reporting of Gross National Product and Gross Domestic Income for that quarter.

The *Hyperinflation Watch* reviews circumstances tied to the U.S. dollar, gold and silver, and discusses the mounting risks of financial-system instabilities.

Consumer Price Index (CPI)—January 2016—Inflation Patterns Were Shifted to Soften Gasoline-Price Distortions. The Bureau of Labor Statistics (BLS) used significant seasonal-adjustment revisions to create a more-stable, adjusted balance to the monthly impact of wildly gyrating gasoline prices in the last year or so. As a result, the reporting of increased headline inflation shifted into fourth-quarter 2015, relative to third-quarter 2015 activity, with implications for weaker, inflation-adjusted and seasonally-adjusted fourth-quarter growth in series such as real retail sales, real earnings and even the GDP, come its mid-year benchmarking, as discussed in the opening paragraphs of these *Opening Comments*.

Seen traditionally, seasonal adjustments at the beginning of the New Year reduce the aggregate month-to-month January 2016 headline inflation rate. In the current circumstance, adjusted headline inflation was reduced to 0.03%, from what would have been a stronger, unadjusted inflation rate of 0.17%. Gasoline prices fell sharply, again, but that was more than countered by rising food prices and higher “core” inflation. With January 2016 inflation going against an even weaker January 2015, unadjusted and unrevised annual CPI-U inflation rose to a ten-month high of 1.37%, up from 0.73% in December 2015.

Separately, although the headline pace of January 2016 annual CPI-U inflation rose to 1.4%, year-to-year inflation is not and has not been quite as soft as indicated in headline reporting, when considered in the context of traditional CPI reporting and common experience. The ShadowStats Alternate Inflation Measures rose in January to 5.0% annual inflation, based on 1990 methodologies, and to 9.0% annual inflation, based on 1980 methodologies.

Longer-Range Inflation Outlook. Updated in the *Hyperinflation Watch*, high risk of extreme flight from the U.S. dollar in the months ahead—a massive dollar debasement—threatens to generate rapid, upside energy and commodity inflation, which would drive headline U.S. consumer inflation much higher.

[Note: CPI revision details by measure and time period are shown in the Reporting Detail section.]

CPI-U. In the context of annual seasonal-adjustment revisions, headline, seasonally-adjusted January 2016 CPI-U was up by 0.03% month-to-month. Such followed an unrevised decline of 0.11% (-0.11%) in December 2015 and an upwardly revised gain of 0.15% in November.

Not seasonally adjusted, and not subject to revision, January 2016 year-year inflation for the CPI-U rose to 1.37%, following annual inflation in December 2015 of 0.73% and annual inflation in November 2015 of 0.50%.

The adjusted headline January month-to-month inflation number was suppressed by seasonal adjustments in each of the energy, food and “core” sectors. On an unadjusted basis, January 2016 CPI-U rose by 0.17%, following unadjusted monthly declines in December of 0.34% (-0.34%) and November of 0.21% (-0.21%).

Encompassed by the seasonally-adjusted monthly gain of 0.03% in January 2016 CPI-U [up by an unadjusted 0.17%], January food inflation rose by an adjusted 0.01% [up by an unadjusted 0.29%], January energy inflation declined by a seasonally-adjusted 2.76% (-2.76%) [down by an unadjusted 1.75% (-1.75%)], while the adjusted “core” (ex-food and energy) inflation rate rose by 0.29% [up by 0.31% unadjusted] for the month. Separately, core inflation showed unadjusted year-to-year inflation of 2.21% in January 2016, versus 2.10% in December 2015 and 2.02% in November 2015.

CPI-W. The January 2016 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, also in the context of seasonal-adjustment revisions, declined month-to-month by 0.03% (-0.03%), following a revised monthly decline of 0.18% (-0.18%) in December 2015, and a revised monthly gain of 0.15% in November. On an unadjusted basis, the monthly CPI-W rose by 0.12%, following unrevised declines of 0.40% (-0.40%) in December and 0.28% (-0.28%) in November.

Unadjusted and unrevised, January 2016 annual CPI-W rose by 1.21%, following annual gains of 0.38% in December 2015 and 0.07% in November 2015.

Chained-CPI-U. The headline C-CPI-U is not seasonally adjusted and was not revised. Headline year-to-year inflation for the January 2016 C-CPI-U was up by 1.02%, versus a 0.31% annual gain in December 2015.

Alternate Consumer Inflation Measures. The ShadowStats-Alternate Consumer Inflation Measures are constructed on top of the unadjusted CPI-U series and are not subject to revision. The ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 5.0% in January 2016, versus 4.3% in December 2015. The January 2016 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 9.0% year-to-year, versus 8.4% in December 2015.

Real Retail Sales—January 2016—CPI Revisions Hammered Fourth-Quarter Growth. Annual seasonal-adjustment revisions to the CPI-U shifted adjusted inflation patterns on a quarter-to-quarter basis, with heavy impact on headline quarterly growth patterns for the inflation-adjusted real retail sales. The inflation revisions were only on a seasonally-adjusted basis, where such inflation detail usually is used only for month-to-month or quarter-to-quarter estimates. Annual inflation standardly is measured in terms of unadjusted year-to-year change, which is not subject to revision. That said, given the availability of real retail sales only on a seasonally-adjusted basis, year-to-year real-retail sales measurement also is adjusted. Although impacted by the revisions, the adjusted annual changes were not affected significantly, since seasonal adjustments tend to be repeated at the same point in each calendar year.

Flattening Quarterly Growth, Intense Recession Signal. Not adjusted for inflation, headline nominal retail sales in January 2016 rose by 0.18%, following a revised gain of 0.16% [previously a decline of 0.11% (-0.11%)] in December 2015, and a downwardly-revised gain of 0.32% in November 2015, as detailed in [Commentary No. 785](#) of February 12th.

Year-to-year January 2016 nominal retail sales growth spiked to 3.44%, with December 2015 growth revising higher to 2.55%. Both those months were against particularly-weak sales in January and December of the year before. November 2015 nominal annual retail sales growth revised lower to 1.55%.

Based on the headline seasonally-adjusted gain of 0.03% in January 2016 CPI-U, an unrevised monthly decline of 0.11% (-0.11%) in December 2015 CPI-U and a revised gain of 0.15% in November CPI-U, January 2016 real retail sales rose by 0.15%. Such followed an unrevised monthly gain of 0.27% in December 2015 real sales, and a downwardly-revised gain of 0.18% in November activity.

Intense Signal of Recession in Annual Real Growth. During normal economic times, annual real growth at or below 2.0% signals an imminent recession. Both before and after the revised CPI-U, that signal has been in play since February 2015 (the “new” recession likely will be timed from December 2014, based on industrial production and other indicators), suggesting a deepening, broad economic downturn. In an intensifying fall off, annual growth in fourth-quarter 2015 real retail sales now has slowed to 1.46%. Where the annual reading for January 2016 was 2.07%, that held within recession-signal range, despite going against a particularly weak January 2015 that had been blamed on severe weather, per conventional wisdom.

Fourth-Quarter Annual Real Growth Flattened Out. With the prior-period revisions to headline nominal Retail Sales in place (see nominal reporting in [Commentary No. 785](#)), based just on the revised seasonal-adjustment to the CPI-U, the annualized contraction in first-quarter 2015 real retail sales deepened to 1.44% (-1.44%), annualized growth in second-quarter 2015 real sales rose to 4.03%, annualized growth in third-quarter 2015 rose to 3.10%, while the annualized growth in fourth-quarter 2015 real retail sales flattened out to 0.23% [previously up by 1.33%].

Based solely on the headline detail for January 2016, first-quarter 2016 real retail sales is on an early track for an annualized quarterly gain of 1.57%. Adjusted for realistic inflation (see *Graph 2*, [Commentary No. 783](#) and [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.

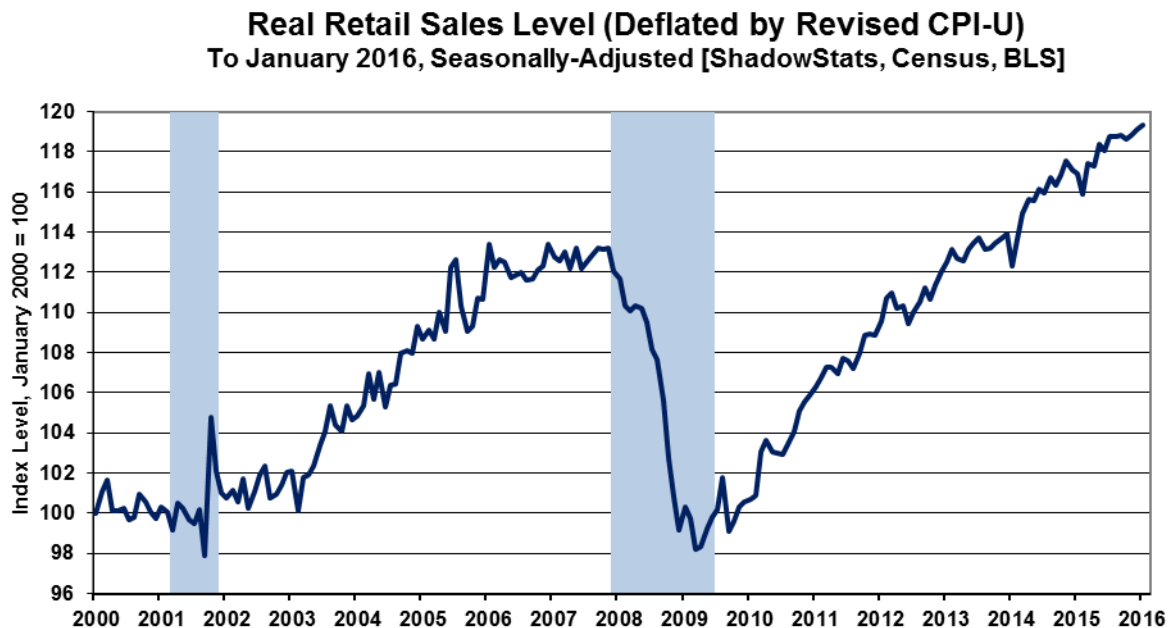
Real Retail Sales Graphs. In the *Reporting Detail*, *Graphs 10* and *12* show the level of real retail sales activity (deflated by the CPI-U); while *Graphs 11* and *13* show the year-to-year percent change for the

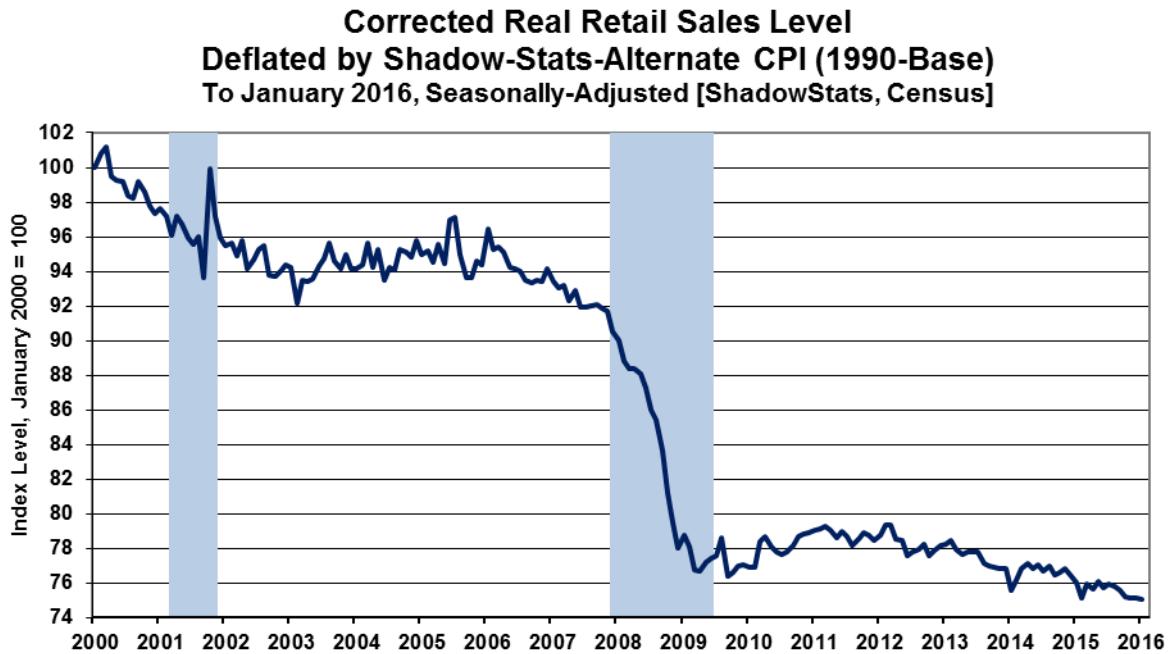
same periods. In the context of revised nominal retail sales and revised seasonally-adjusted inflation, the level of headline monthly activity turned lower in October 2015 with upticks in November, December and January 2016 levels, with recent aggregate headline fourth-quarter growth largely dissipating in various revisions, and now flattening out. Annual real growth had slowed markedly into fourth-quarter 2015, with January 2016 real annual growth still generating a recession signal.

Corrected Real Retail Sales—January 2016. The apparent “recovery” of headline real retail sales shown in *Graph 1* (see also *Graph 10*) generally continued into late-2014, although headline reporting turned down in December 2014, into first-quarter 2015, turned higher into the third-quarter 2015, slowed to a near-standstill in fourth-quarter 2015, and has jumped anew in January 2016. 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). Both graphs also have been revised to incorporate the latest annual revisions to the CPI-U. 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 10* in the *Reporting Detail* section.

Graph 1: Headline Real Retail Sales Level (Revised CPI-U), Indexed to January 2000 = 100



Graph 2: "Corrected" Real Retail Sales Level (Revised CPI-U), Indexed to January 2000 = 100

Instead of being deflated by the CPI-U, the “corrected” real retail sales numbers—in *Graph 2*—use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation. With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation and renewed downturn, consistent with patterns seen in consumer indicators like real average weekly earnings (see *Graph 3*), broad unemployment series and in most housing statistics (see [Commentary No. 784](#) and [Commentary No. 786](#)). 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, and now into 2016, allowing for the occasional and temporary upside blips.

Real Average Weekly Earnings—January 2016—A Triple Whammy of Revisions. The latest reporting of real earnings reflected the revamped CPI-W seasonal adjustment factors that have skewed previous quarterly patterns of activity, the annual payroll benchmark revisions to earnings and corrective revisions to data processing errors made during the economic collapse. The headline detail is neither particularly credible nor consistent, problems common to payroll-related series. Nonetheless, the headline numbers have been relatively strong in recent, partially due to negative inflation, and the new headline detail is noted and plotted here as published. The intervening multiple revisions are not reviewed.

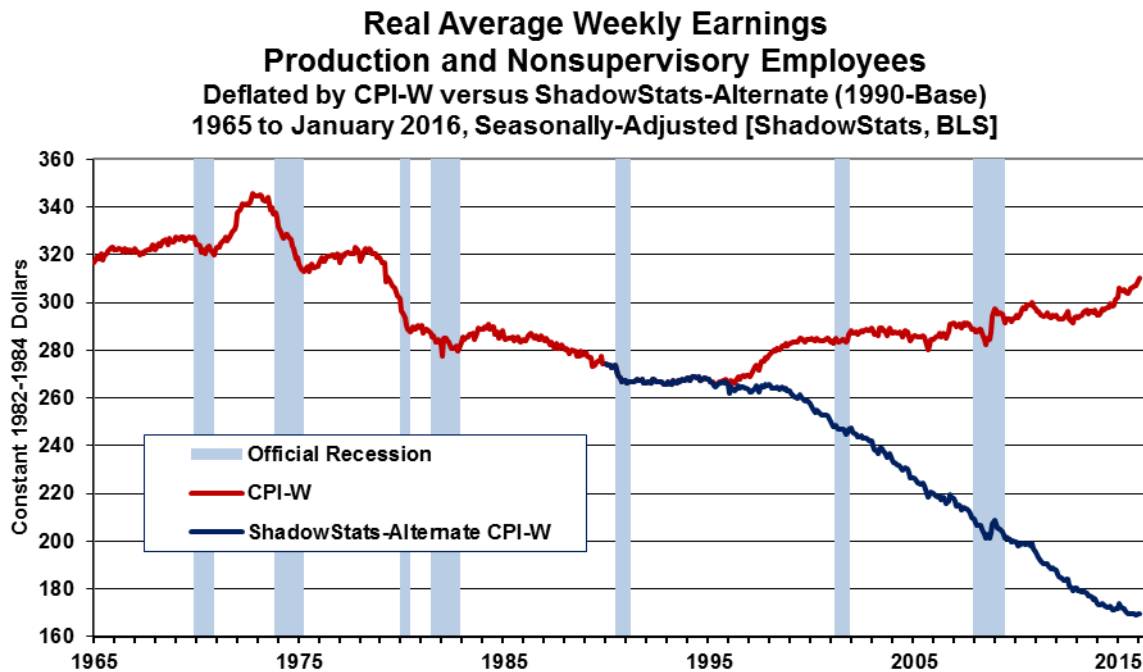
Some Headline Monthly Gains Boosted by Negative Monthly Inflation. Real average weekly earnings for January 2016 were released in the context of annual revisions to the seasonally-adjusted CPI-W series used in deflating the series, the annual payroll benchmarking and other corrective revisions. In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings rose month-to-month by 0.31% in January 2016, versus a monthly gain of 0.66% in December 2015 and a drop of 0.06% (-0.06%) in November.

Year-to-year and seasonally-adjusted, annual growth in January 2016 real average weekly earnings slowed to 1.32% from 2.29% in December 2015. That also was against annual growth of 1.97% in November 2015. Not seasonally adjusted, annual growth in January 2016 fell to 1.26%, from 2.12% in December 2015, and against 1.78% in November 2015.

On a quarterly basis, real-average weekly earnings grew at an annualized headline pace of 6.62% in first-quarter 2015, fell by 0.49% (-0.49%) in second-quarter 2015, fell by 0.46% (-0.46%) in third-quarter (2015) and gained by 3.98% in fourth-quarter 2015. Based just on January 2016 reporting, first-quarter 2016 was showing an early, annualized growth rate of 2.98%.

Both the monthly and annual fluctuations in this series were irregular, and current reporting appears to be outside the regular bounds of stability. The CPI-W-deflated reporting here is distorted versus CPI-U-deflated series, where the CPI-W, which is more heavily weighted with gasoline prices, tends to have much greater, negative headline inflation.

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). The plot has been updated for all recent revisions and restatements. 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. Negative inflation from the collapsing gasoline prices, however, has helped to boost recent monthly real earnings in the headline series.

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.

[The *Reporting Detail* section includes significant additional detail and graphs on the CPI and related reporting.]

HYPERINFLATION WATCH

UPDATED GOLD AND U.S. DOLLAR GRAPHS

Monthly Gold and Dollar Graphs and Related Comments—Intensifying U.S. Economic Downturn Creates Increasingly Unstable Circumstances for the U.S. Dollar and the Financial Markets.

Updating the graphs and comments in last week's [Commentary No. 785](#), high risk of extreme flight from the U.S. dollar—a massive dollar debasement—in the weeks and months ahead threatens to generate rapid, upside movement in energy and commodity prices, which would drive headline U.S. consumer inflation much higher.

Global market expectations initially for the Fed rate hike of December 2015, and now for further rate hikes, have been primary props for strengthening the U.S. dollar in the currency markets. Underlying those expectations had been the perpetual hype of an expanding U.S. economy. Further tightening now, however, is increasingly unlikely for the Federal Reserve. Instead, with the economy falling apart, the U.S. central bank once again faces having to accommodate the liquidity needs of a U.S. Treasury facing much-larger-than-expected government fiscal shortfalls, while at the same time having to maintain adequate liquidity in a still-impaired banking system.

Nascent and evolving dollar problems continue to surface, increasingly in response to the declining domestic business activity and to faltering U.S. systemic stability: the increasingly-obvious systemic impotency of the U.S. Federal Reserve. Dollar selling remains vulnerable to rapid acceleration as global recognition solidifies around these deteriorating fundamentals.

Intensifying global and domestic political, economic and liquidity crises, and fiscal and monetary instabilities all should increasingly pummel the U.S. dollar and boost the safe-haven demand for the physical holding of precious metals. Again, global-market sentiment may shift massively with little warning. The ongoing economic and financial-system-liquidity crises threaten systemic instabilities that,

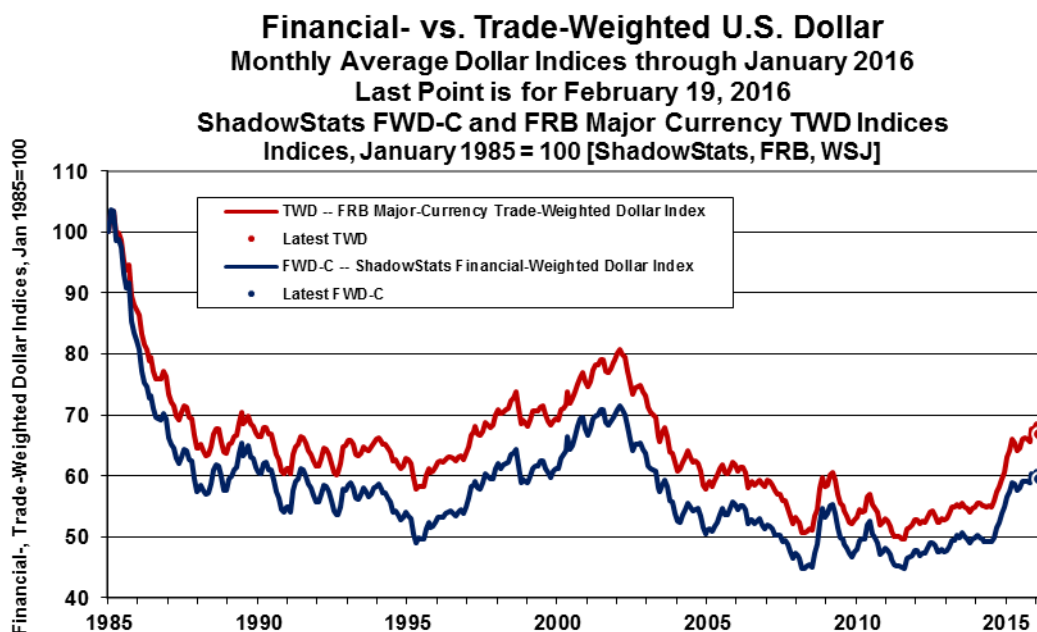
as with their Panic of 2008 precursors, cannot be contained without further, official actions and serious inflation consequences.

Discussed in [No. 777 Year-End Special Commentary](#), the decision to save the domestic and global financial systems from collapse was made in 2008. Nothing was done then, fundamentally, to resolve the underlying problems and instabilities that brought the crisis to a head. Primarily stopgap measures were used instead to buy time, and they largely have been run to and reached their limits. Perpetual systemic salvation under such circumstances promises eventual systemic collapse in a hyperinflation, not in a hyperdeflation.

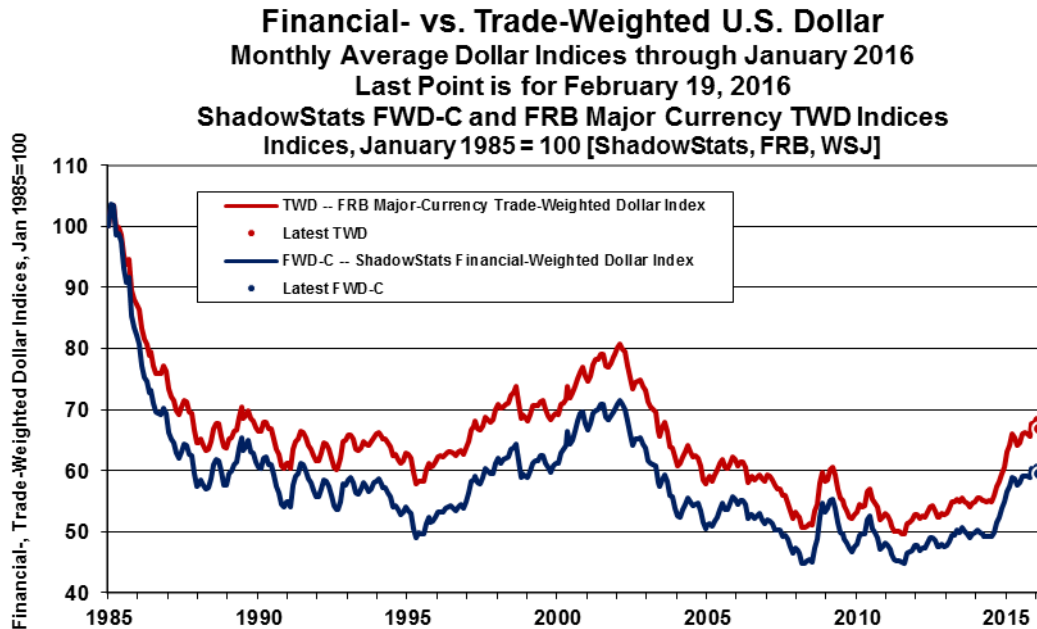
The monthly plots of the U.S. Dollar (*Graphs 4 and 5*) and the three gold graphs (*Graphs 6, 7 and 8*) that regularly accompany the *CPI Commentaries* follow. The trade- and financial-weighted dollar measures have shown some increased volatility, but generally, they are off peak. Increasingly, the global markets do not appear to buying the concept that all is right with the U.S. financial system and economy, particularly as seen in increasingly unstable equity markets. The “Latest February” points in these graphs reflect afternoon New York prices for February 19th. Detailed in [Commentary No. 772](#), the ShadowStats Financial-Weighted Dollar measure recently was expanded to incorporate that Chinese Yuan (CNY)/Renminbi (RMB).

Oil prices have continued to plummet, along with indications of an increasing oil glut and lack of meaningful selling, so far, in the U.S. dollar. A rebound in dollar-denominated 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. To be effective, though, such protection needs to be held in place through the peak of the crisis.

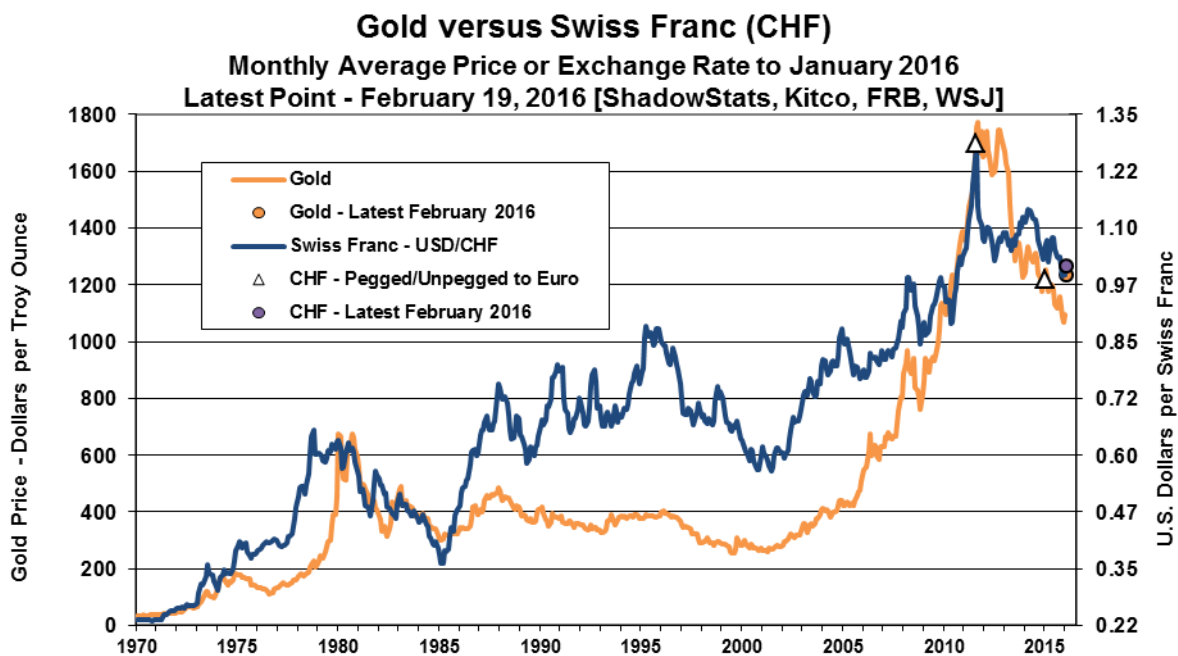
Graph 4: Financial- versus Trade-Weighted U.S. Dollar



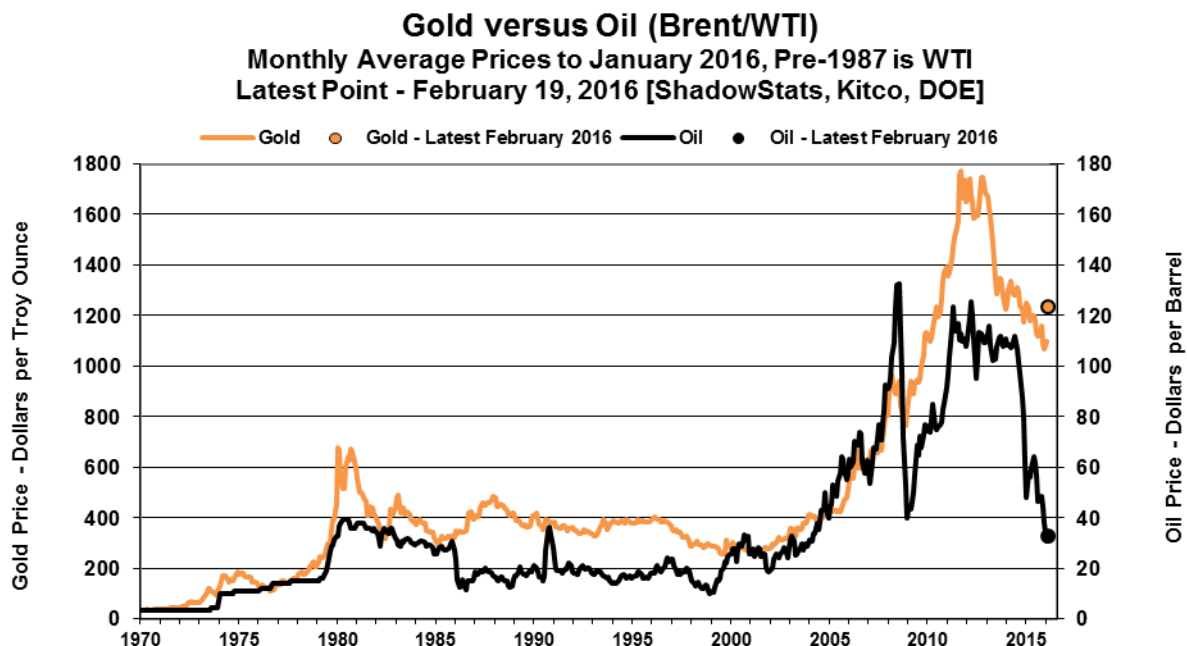
Graph 5: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar



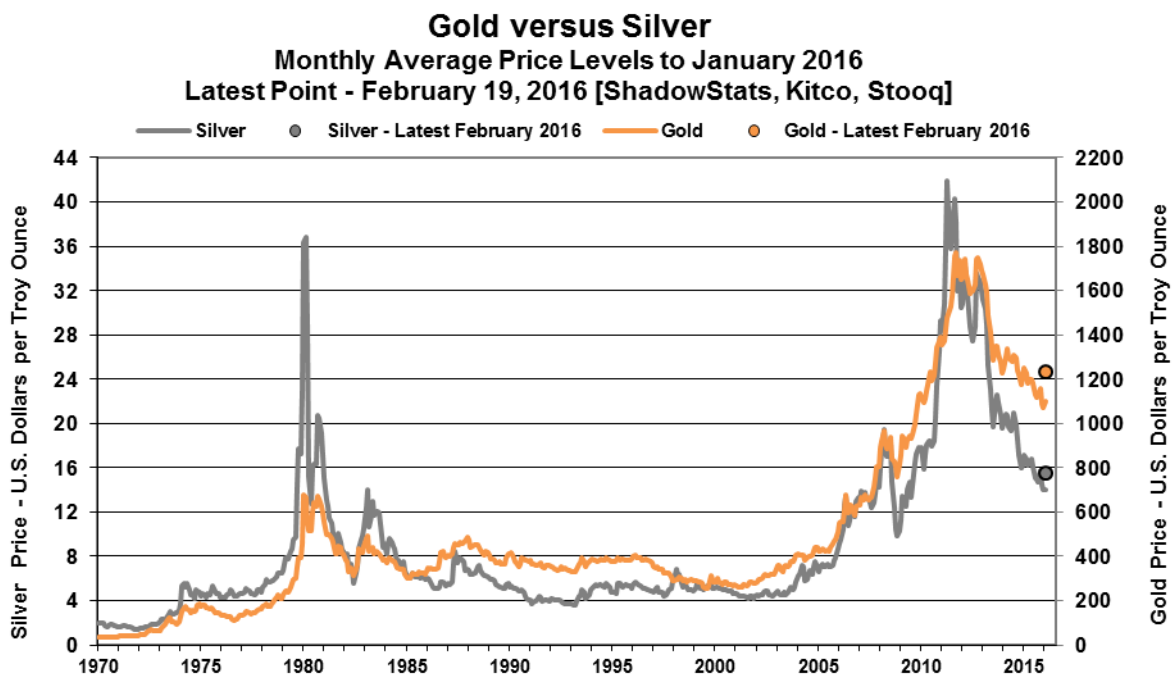
Graph 6: Gold versus the Swiss Franc



Graph 7: Gold versus Oil



Graph 8: Gold versus Silver



HYPERINFLATION OUTLOOK SUMMARY (Latest version is found in [Commentary No. 783.](#))

REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (January 2016)

Headline Adjusted CPI-U Inflation Patterns Were Shifted So As to Soften Seasonal Distortions from Gasoline Prices. *[These first four paragraphs largely are repeated from the Opening Comments section.]* Significant seasonal-adjustment revisions were used to create a more-stable, adjusted balance to the monthly impact of wildly gyrating gasoline prices in the last year or two. As a result, greater inflation activity was shifted into fourth-quarter 2015, relative to third-quarter 2015 activity, with implications for weaker, inflation-adjusted fourth-quarter activity in seasonally-adjusted series such as real retail sales, real earnings and even the GDP, come its mid-year benchmarking.

In keeping with tradition, seasonal adjustments at the beginning of the New Year reduced the aggregate month-to-month January 2016 headline inflation, to 0.03% from what would have been a stronger, unadjusted inflation rate of 0.17%. Gasoline prices fell sharply, again, but that was more than countered by rising food prices and “core” inflation. With January 2016 inflation going against an even weaker January 2015, unadjusted and unrevised annual CPI-U inflation rose to a ten-month high of 1.37%, up from 0.73% in December 2015.

Separately, although the headline pace of January 2016 annual CPI-U inflation rose to 1.4%, year-to-year inflation is not and has not been quite as soft as indicated in headline reporting, when considered in the context of traditional CPI reporting and common experience. The ShadowStats Alternate Inflation Measures rose in January to 5.0% annual inflation, based on 1990 methodologies, and to 9.0% annual inflation, based on 1980 methodologies.

Longer-Range Inflation Outlook. Updated in today’s *Hyperinflation Watch* and discussed more broadly in [No. 777 Year-End Special Commentary](#), high risk of extreme flight from the U.S. dollar—a massive dollar debasement—threatens to generate rapid, upside energy and global-commodity inflation, which would drive headline U.S. consumer inflation much higher.

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.

Annual Revisions to Seasonally-Adjusted CPI Inflation. On February 17th, the Bureau of Labor Statistics (BLS) published its annual revisions to the seasonally-adjusted Consumer Price Indices, the CPI-U and the CPI-W and their related components, back through January 2011. Not-seasonally-adjusted data were unrevised.

CPI-U. In the context of the annual seasonal-adjustment revisions, the BLS reported February 19th that the headline, seasonally-adjusted January 2016 CPI-U was “unchanged” at 0.0% month-to-month, up by 0.03% at the second decimal point. Such followed an unrevised decline of 0.1% (-0.1%), a decline of 0.11% (-0.11%) at the second decimal point in December 2015, and a revised gain of 0.1%, up by 0.15% at the second decimal point [previously an “unchanged” reading at 0.0%, a gain of 0.03% at the second decimal point] in November.

The adjusted headline January inflation number was suppressed by seasonal adjustments in each of the energy, food and “core” sectors. On an unadjusted basis, January 2015 CPI-U rose by 0.17%, following an unadjusted monthly declines in December of 0.34% (-0.34%) and November of 0.21% (-0.21%).

Seasonal adjustments for monthly gasoline inflation were negative in January 2016, turning an unadjusted headline decline of 4.41% (-4.41%) into an adjusted contraction of 4.75% (-4.75%). A headline, unadjusted monthly decline of 4.06% (-4.06%) for the month had been estimated by the Department of Energy (DOE).

Major CPI-U Groups. Encompassed by the seasonally-adjusted gain of 0.03% in January 2015 CPI-U [up by an unadjusted 0.17%], January food inflation rose by a seasonally-adjusted 0.01% for the month [up by an unadjusted 0.29%], January energy inflation declined by a seasonally-adjusted 2.76% (-2.76%) [down

by an unadjusted 1.75% (-1.75%)), while the adjusted “core” (ex-food and energy) inflation rate rose by 0.29% [up by 0.31% unadjusted] for the month.

Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 2.21% in January 2016, versus 2.10% in December 2015 and versus 2.02% in November 2015.

Year-to-Year CPI-U. Not seasonally adjusted, and not subject to revision, January 2016 year-year inflation for the CPI-U rose to 1.4% at the first decimal point, to 1.37% at the second decimal point. That followed headline annual inflation in December 2015 of 0.7% at the first decimal point, 0.73% at the second decimal point, and 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 February 2016 reporting, dependent on the seasonally-adjusted monthly change, versus the adjusted, headline gain of 0.20% in February 2015 CPI-U. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for February 2016, the difference in February’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the January 2016 annual inflation rate of 1.37%. For example, a seasonally-adjusted, headline monthly “unchanged” reading in the February 2016 CPI-U would reduce the annual February inflation to roughly a positive 1.2%, plus-or-minus, depending on rounding.

Revised Quarterly CPI-U. On an annualized quarter-to-quarter basis, the seasonally-adjusted CPI-U rose by a revised 0.77% [previously up by 0.23%] in fourth-quarter 2015, up by 1.38% [previously up by 1.58%] in the third quarter, up by 2.44% [previously up by 2.98%] in the second quarter and down by a revised 2.86% (-2.86%) [previously down by 3.06% (-3.06%)] in the first quarter.

On an unadjusted, year-to-year basis, annual inflation by quarter was not revised, 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.

CPI-W. The January 2016 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, also in the context of seasonal-adjustment revisions, declined month-to-month by 0.03% (-0.03%), following a revised monthly decline of 0.18% (-0.18%) [previously down by 0.17% (-0.17%) in December 2015] and a revised monthly gain of 0.15% [previously down by 0.02% (-0.02%) in November]. On an unadjusted basis, the monthly CPI-W rose by 0.12%, following unrevised declines of 0.40% (-0.40%) in December and 0.28% (-0.28%) in November.

Year-to-Year CPI-W. Unadjusted and unrevised, January 2016 annual CPI-W rose by 1.21%, following annual gains of 0.38% in December 2015 and 0.07% in November 2015.

Quarterly CPI-W. On a quarter-to-quarter basis, the seasonally-adjusted CPI-W rose at a revised annualized pace of 0.39% [previously down by 0.44% (-0.44%)] in fourth-quarter 2015, up by a revised 2.56% [previously up 1.47%] in the third quarter, up by a revised 1.23% [previously up by 3.35%] in the second quarter and down by a revised 4.21% (-4.21%) [previously down by 4.41% (-4.41%)] in the first quarter. On an unadjusted year-to-year basis, annual inflation by quarter was unrevised, 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.

Chained-CPI-U. The headline C-CPI-U is not seasonally adjusted and was not revised. Headline year-to-year inflation for the unadjusted January 2016 C-CPI-U was up by 1.02%, versus a 0.31% annual gain in December 2015.

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. The ShadowStats-Alternate Consumer Inflation Measures are constructed on top of the unadjusted CPI-U series and are not subject to revision. Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 5.0% in January 2016, versus 4.3% in December 2015.

The January 2016 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 9.0% (9.02% for those using a second decimal point) year-to-year, versus 8.4% in December 2015.

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

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

Gold and Silver Historic High Prices Adjusted for January 2016 CPI-U/ShadowStats Inflation—

CPI-U: GOLD at \$2,588 per Troy Ounce, SILVER at \$151 per Troy Ounce
ShadowStats: GOLD at \$12,424 per Troy Ounce, SILVER at \$723 per Troy Ounce

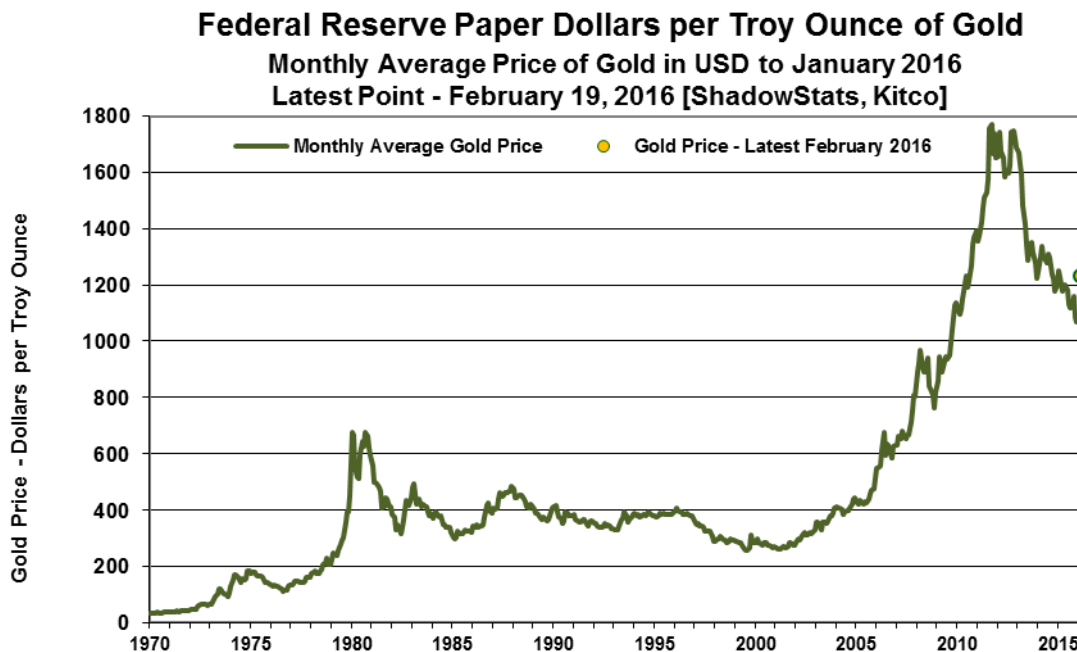
Despite the September 5, 2011 historic-high gold price of \$1,895.00 per troy ounce (London afternoon fix), and despite the multi-decade-high silver price of \$48.70 per troy ounce (London fix of April 28, 2011), gold and silver prices have yet to re-hit their 1980 historic levels, adjusted for inflation. The earlier all-time high of \$850.00 (London afternoon fix, per Kitco.com) for gold on January 21, 1980

would be \$2,588 per troy ounce, based on January 2016 CPI-U-adjusted dollars, and \$12,424 per troy ounce, based on January 2016 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (all series here are not seasonally adjusted).

In like manner, the all-time high nominal price for silver in January 1980 of \$49.45 per troy ounce (London afternoon fix, per silverinstitute.org)—although approached in 2011—still has not been hit since 1980, including in terms of inflation-adjusted dollars. Based on January 2016 CPI-U inflation, the 1980 silver-price peak would be \$151 per troy ounce and would be \$723 per troy ounce in terms of January 2016 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

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

Graph 9: Monthly Average Gold Price in Dollars (Federal Reserve Notes)



Real (Inflation-Adjusted) Retail Sales—January 2016—CPI Revisions Hammered Fourth-Quarter Growth. Annual seasonal-adjustment revisions to the CPI-U shifted adjusted inflation patterns on a quarter-to-quarter basis, with heavy impact on headline quarterly growth patterns for real Retail Sales. The inflation revisions were only on a seasonally-adjusted basis. Seasonally-adjusted headline inflation detail usually is used just for month-to-month or quarter-to-quarter estimates, where annual inflation standardly is measured in terms of unadjusted year-to-year change, which is not subject to revision.

That said, given the availability of real retail sales only on a seasonally-adjusted basis, year-to-year real-retail sales measurement also is adjusted. Although impacted by the revisions, the adjusted annual

changes were not affected significantly, where revised seasonal adjustments tend to be repeated at the same point in each calendar year.

These seasonality issues also affected the reporting of real earnings, as reviewed in the next section. In conjunction with parallel annual seasonal-adjustment revision patterns in the Producer Price Index (PPI) (see prior [Commentary No. 786](#)), these revisions also have implications for the pending annual GDP benchmarking on July 29th, as discussed in the opening paragraphs of today's *Opening Comments*.

Flattening Quarterly Growth, Intense Recession Signal. Not adjusted for inflation, headline nominal retail sales in January 2016 rose by 0.18%, following a revised gain of 0.16% [previously a decline of 0.11% (-0.11%)] in December 2015, and a downwardly-revised gain of 0.32% [previously up by 0.37%, initially up by 0.22%] in November 2015, as detailed in [Commentary No. 785](#) of February 12th.

Year-to-year January 2016 nominal retail sales growth spiked to 3.44%, with December 2015 nominal retail sales growth at a revised annual gain of 2.55% [previously up 2.20%]. Both those months were against particularly-weak sales in January and December of the year before. November 2015 nominal annual retail sales growth revised lower to 1.55% [previously up by 1.59%, initially up by 1.35%].

Based on the headline seasonally-adjusted gain of 0.03% in January 2016 CPI-U, an unrevised monthly decline of 0.11% (-0.11%) in December 2015 CPI-U and a revised gain of 0.15% [previously up by 0.03%] in November CPI-U, January 2016 real retail sales rose by 0.15%, following an unrevised monthly gain of 0.27% in December 2015 real sales, and a downwardly-revised gain of 0.18% in November activity.

Intense Signal of Recession in Annual Real Growth. During normal economic times, annual real growth in Retail Sales at or below 2.0% signals an imminent recession. Both before and after the revised CPI-U, that signal basically has been in play since February 2015 (the “new” recession likely will be timed from December 2014, based on industrial production and other indicators), suggesting a deepening, broad economic downturn. In an intensifying fall off, annual growth in fourth-quarter 2015 real retail sales now has slowed to 1.46% [1.60% pre-CPI-U revision]. Where the annual reading as of January 2016 was 2.07%, that held within recession-signal range, despite going against a particularly weak January 2015 that was blamed on severe weather, per conventional wisdom. Current real retail sales reporting remains consistent with a signal of unfolding recession. *Graphs 11 and 13*, following, show the latest patterns of headline annual real growth.

Fourth-Quarter Annual Real Growth Flattened Out. With the prior-period revisions to headline nominal Retail Sales in place (see nominal reporting in [Commentary No. 785](#)), based just on the revised seasonal-adjustment to the CPI-U, the annualized contraction in first-quarter 2015 real Retail Sales deepened to 1.44% (-1.44%) [previously having been down by 1.25% (-1.25%)], annualized growth in second-quarter 2015 real sales rose to 4.03% [previously up by 3.49%], annualized growth in third-quarter 2015 rose to 3.10% [previously up by 2.89%], while the annualized growth in fourth-quarter 2015 real retail sales flattened out to 0.23% [previously up by 1.33%].

Based solely on the headline detail for January 2016, first-quarter 2016 real retail sales is on an early track for an annualized quarterly gain of 1.57%. Adjusted for realistic inflation (see *Graph 2* in the *Opening Comments*, [Commentary No. 783](#) and [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.

Consumer Liquidity Problems Continue to Impair Retail Sales. Broadly discussed in [No. 777 Year-End Special Commentary](#) and briefly updated in [Commentary No. 785](#), the primary underlying issues restraining retail sales remain intense, structural-liquidity woes besetting the consumer. Without meaningful real growth in income, and without the ability and/or willingness to offset declining purchasing power with meaningful 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 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 ongoing real earnings difficulties discussed in the next section—these data should continue trending meaningfully lower, in what should be recognized soon as a formal “new” recession.

Real Retail Sales Graphs. *Graph 10*, the first of the four graphs following, shows the level of real retail sales activity (deflated by the CPI-U) since 2000; *Graph 11* shows the year-to-year percent change for the same period. In the context of revised nominal retail sales and revised seasonally-adjusted inflation, the level of headline monthly activity turned lower in October 2015 with upticks in November, December and January 2016 levels. Yet the aggregate headline fourth-quarter growth largely has dissipated in various revisions, and flattened out.

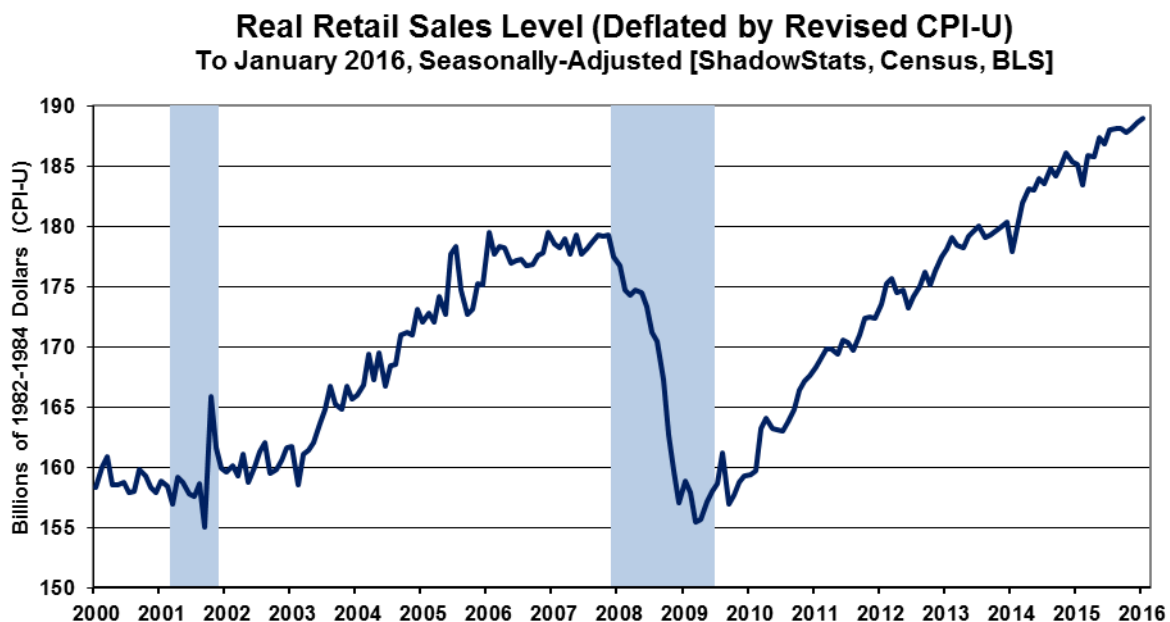
Annual real growth had slowed markedly into fourth-quarter 2015, with January 2016 real annual growth still generating a recession signal. *Graphs 12* and *13* show the level of, and annual growth in, real retail sales (and its predecessor series) in full post-World War II detail.

The relative strength seen in the real retail series, and the recovery in the headline industrial production series through year-end 2014, after which it turned down sharply (see [Commentary No. 786](#)), largely reflect the understatement of the rate of inflation used in deflating the respective series. Discussed more fully in *Chapter 9* of [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted, real economic growth.

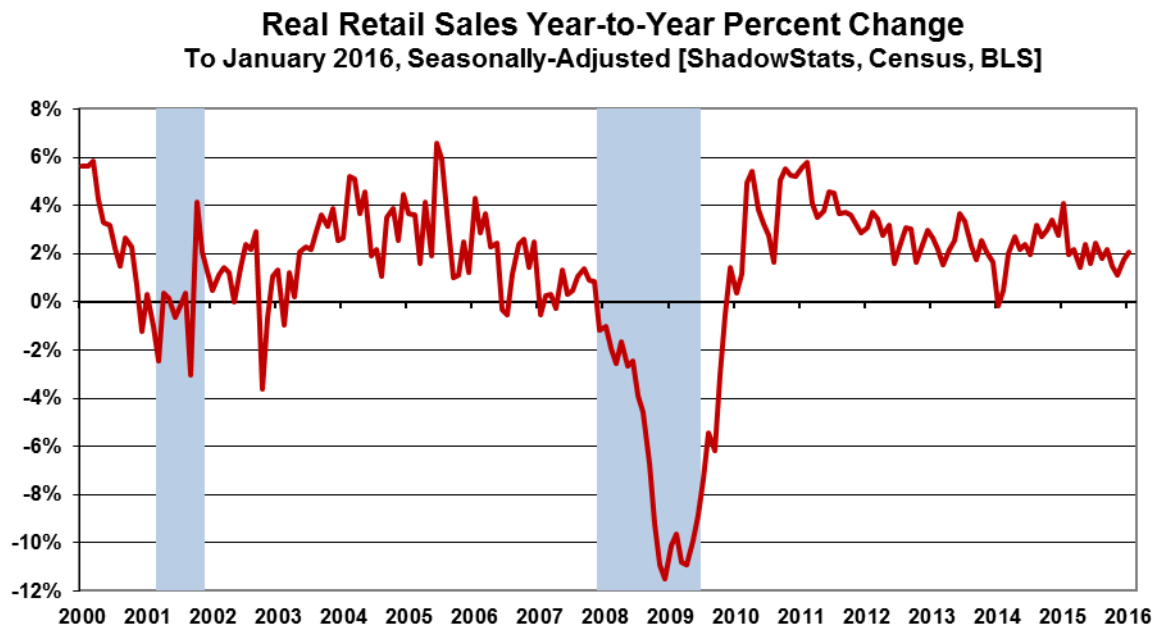
Shown in the latest “corrected” real retail sales—*Graph 2* in the *Opening Comments* section—with the deflation rates corrected for the understated inflation reporting of the CPI-U, the recent pattern of real sales activity has turned increasingly negative. The corrected graph shows that the post-2009 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.

[Graphs 10 to 13 start on the next page]

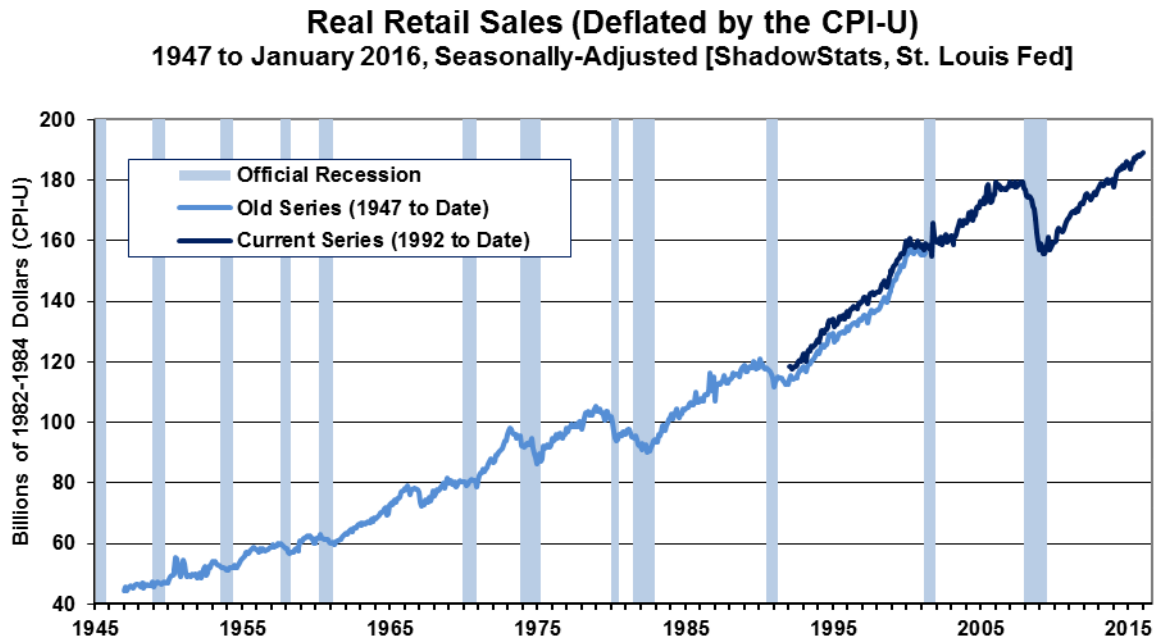
Graph 10: Real Retail Sales (2000 to 2016), Revised CPI-U



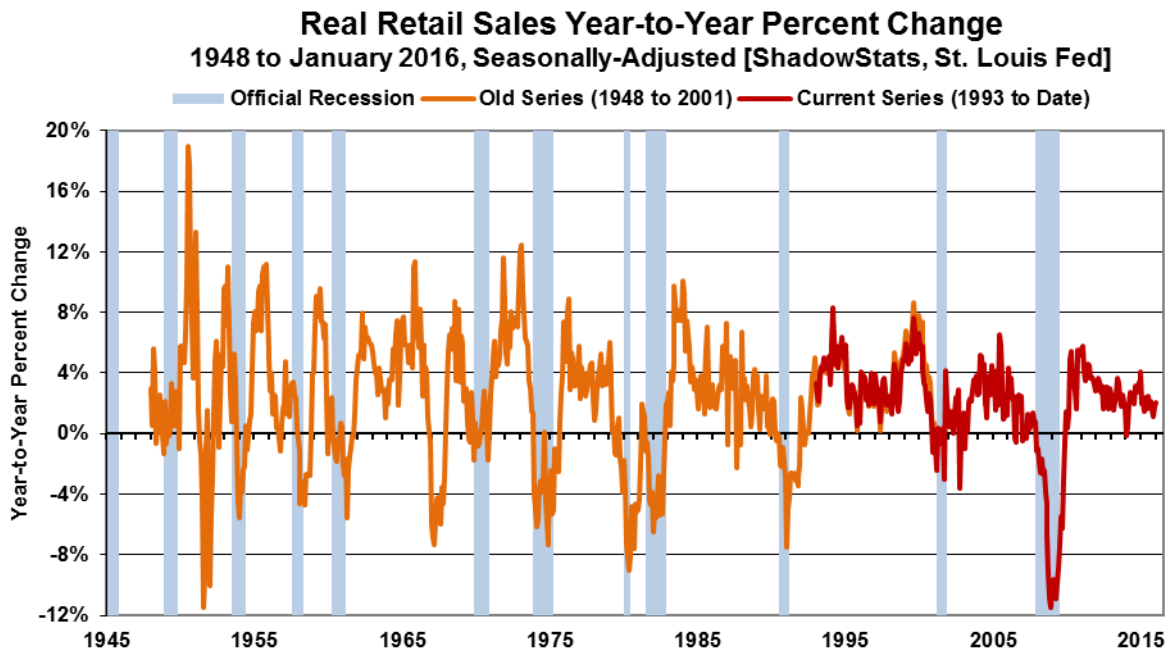
Graph 11: Real Retail Sales (2000 to 2016), Revised CPI-U, Year-to-Year Percent Change



Graph 12: Real Retail Sales (1947 to 2016), Revised CPI-U



Graph 13: Real Retail Sales (1948 to 2016), Revised CPI-U, Year-to-Year Percent Change



Real (Inflation-Adjusted) Average Weekly Earnings—January 2016—A Triple Whammy of Revisions.
The latest reporting of real earnings reflected the revamped CPI-W seasonal adjustment factors that had skewed previous quarterly patterns of activity, the annual payroll benchmark revisions to earnings and the

corrective revisions to data processing errors made during the economic collapse. The headline detail is not particularly credible, and not consistent, problems common to the payroll-related series. Nonetheless, the headline numbers have been relatively strong in the last several months, partially due to negative inflation. The new headline detail is noted and plotted here as published. The various intervening, multiple revisions are not published.

Some Headline Monthly Gains Boosted by Negative Monthly Inflation. The BLS published its estimates for real average weekly earnings for January 2016, coincident with the release of the January 2016 CPI-W, and in the context of annual revisions to the seasonally-adjusted CPI-W, the annual payroll benchmarking and other corrective revisions. In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings rose month-to-month by 0.31% in January 2016, versus a monthly gain of 0.66% in December 2015 and a drop of 0.06% (-0.06%) in November.

Year-to-year and seasonally-adjusted, annual growth in January 2016 real average weekly earnings fell to 1.32% from 2.29% in December 2015. That was against annual growth of 1.97% in November 2015. Not seasonally adjusted, annual growth in January 2016 fell to 1.26% from 2.12% in December 2015 and was against 1.78% in November 2015.

On a quarterly basis, real-average weekly earnings grew at an annualized headline pace of 6.62% in first-quarter 2015, fell by 0.49% (-0.49%) in second-quarter 2015, fell by 0.46% (-0.46%) in third-quarter 2015 and gained by 3.98% in fourth-quarter 2015. Based just on January 2016 reporting, first-quarter 2016 was showing an early, annualized growth rate of 2.98%.

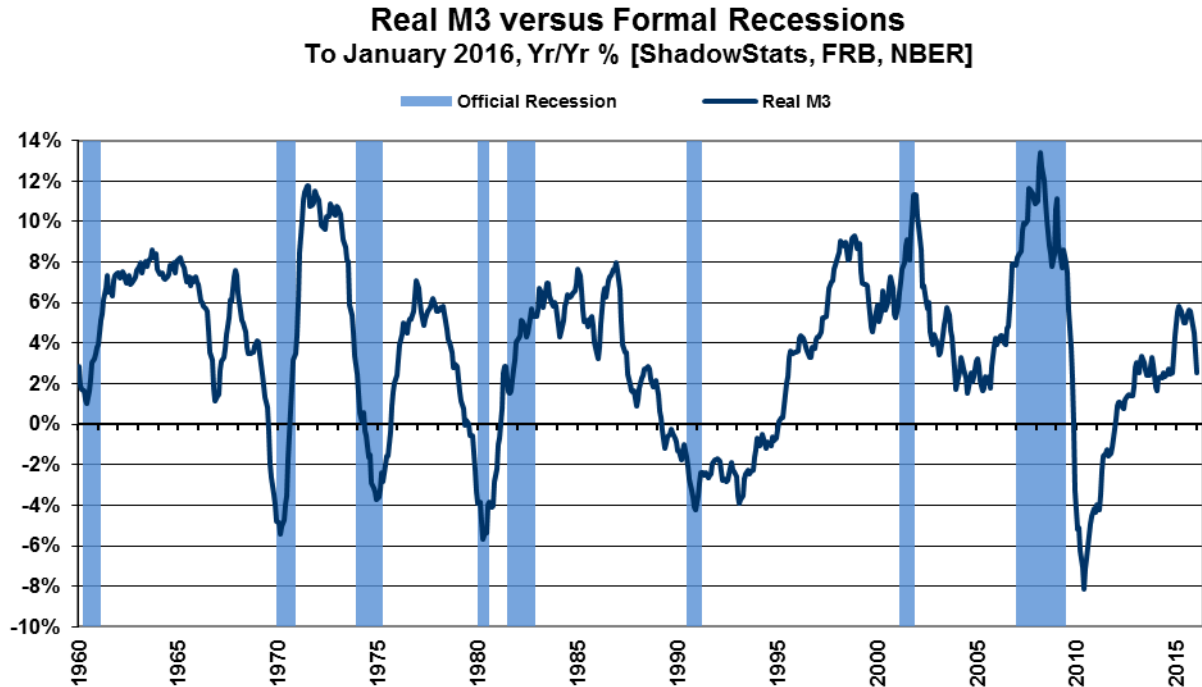
Both the monthly and annual fluctuations in this series were irregular, and current reporting appears to be outside the regular bounds of stability. The CPI-W deflated reporting here is distorted versus CPI-U-deflated series, where the CPI-W—more heavily weighted with gasoline prices—tends to have much greater, negative headline inflation.

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 (albeit spiked recently by negative headline inflation). Deflated by the ShadowStats (1990-Based) 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—January 2016—Intensifying Plunge in 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 January 2016 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate (including annual Federal Reserve Board money supply revisions)—annual inflation-adjusted growth in January 2016 M3 slowed to 2.6%, its lowest level since September 2014, from revised a 3.5% [previously 3.8%] in December 2015. The decline in the monthly rate of year-to-

year change reflected both an increase in annual CPI-U inflation (contributing about 0.6% to the monthly decline) and a continuing decline in annual M3 growth (contributing about 0.4% to the monthly decline, see [Commentary No. 784](#)).

Graph 14: 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 multiple-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.

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 some upside movement recently in prices for gold and silver (see the *Hyperinflation Watch*, [Commentary No. 784](#) and [Commentary No. 785](#)). Circumstances here also should limit further heavy selling in the oil market and begin to turn pricing there once again to the upside.

Weaker headline reporting of the regular monthly economic numbers increasingly should 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 was unchanged for January 2016, annual CPI-U jumped sharply, against year-ago weak inflation, to a 15-month high. Eventually, prices should turn sharply positive, pending an environment of a weakening U.S. dollar and a related upturn in otherwise battered oil prices and other commodities. Separately, fundamental reporting issues with the CPI are discussed here: [Public Commentary on Inflation Measurement](#).

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). That has been 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:

Existing- and New-Home Sales (January 2016). January 2016 Existing-Home Sales are due for release on Tuesday, February 23rd, from the National Association of Realtors (NAR), with the January 2016 New-Home Sales report due from the Census Bureau on Wednesday, February 24th. Both Existing- and New-Home Sales will be covered in the next *Commentary No. 788* of February 25th.

Broadly discussed in [No. 777 Year-End Special Commentary](#) and briefly updated in [Commentary No. 785](#), 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.

Headline Existing-Home Sales remain subject to extreme month-to-month volatility as the NAR attempts to adjust and account for headline monthly closings of home sales, in the context of regulatory-induced timing disruptions on mortgage closings. That circumstance led to a misleading collapse of headline sales in November and a misleading sales explosion in December. Those factors resolved, Existing-Home Sales should resume a pattern of relatively low-level stagnation in January 2016 and beyond.

Further, smoothed for regular extreme and nonsensical monthly gyrations, a continuing pattern of stagnation or downturn in New-Home Sales also is likely. Its pattern of low-level stagnation turned from up-trending to down-trending in September 2015. Monthly changes in activity here rarely are statistically-significant, amidst the otherwise unstable headline monthly reporting and revisions.

New Orders for Durable Goods (January 2016). The Census Bureau will report January 2016 New Orders for Durable Goods on Thursday, February 25th, which will be covered in *Commentary No. 788* of that date. 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 the GDP—is the activity in new orders, ex-commercial aircraft.

Gross Domestic Product (GDP)—Fourth-Quarter 2015, Second Estimate, First Revision (GNP and GDI Initial Estimates). The Bureau of Economic Analysis (BEA) will publish its second estimate, first revision of fourth-quarter 2015 Gross Domestic Product (GDP) on Friday, February 26th. Discussed in the opening paragraphs of today's *Opening Comments*, the second estimate of growth should revise lower, from the initial annualized quarterly headline growth rate of 0.69%. Early-consensus estimates already are moving in that direction.

Fourth-quarter 2015 GDP should be in an outright quarterly contraction in its final form, and that could happen in this first revision, with a second revision due on March 25th. Formal recession recognition (timed from December 2014) likely would follow shortly in the wake of the eventual announcement of a headline contraction in fourth-quarter 2015 GDP.

Recent headline seasonal-adjustment revisions to the CPI and PPI suggest that pending revisions to GDP inflation patterns already would have the fourth-quarter 2015 GDP in headline contraction, but those elements should not come into play until the GDP benchmark revisions of July 29th.

Per the BEA, initial estimates for fourth-quarter 2015 Gross National Product (GNP) and Gross Domestic Income (GDI) also will be published on February 26th. Such will break a long-standing tradition of publishing those annual and fourth-quarter GDI and GNP estimates along with the third-estimate of fourth-quarter GDP, instead of the second-estimate as has been the common circumstance for the first three quarters of the year. Where GDI is the theoretical income-side equivalent of the consumption-side GDP, and where GNP is the broadest U.S. economic measure (GDP is GNP net of trade flows in interest and dividend payments), those two alternate-GDP measures often provide interesting contrasts to the generally poor-quality and inconsistent headline reporting of the GDP.
