

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

GENERAL COMMENTARY NUMBER 811
General Outlook, Underlying Economic Reality

June 10, 2016

Faltering Anew, Broad Business Activity Remains in Non-Recovery

Pending Weaker Economic Data Should Hit the Dollar Hard

**Despite Central Bank Pummeling of the Gold Price,
Gold Holds Its Own versus Central-Bank-Propped Stock Markets**

Underlying Consumer Conditions Remain Heavily Stressed

PLEASE NOTE: The next regular Commentary, scheduled for Tuesday, June 14th, will cover May 2016 nominal Retail Sales, followed by subsequent Commentaries on June 15th, covering Industrial Production and PPI for May, on June 16th covering the May CPI and real Retail Sales, and on June 17th covering May Housing Starts. Due to travel, the daily postings likely will be late-day, possibly overnight.

A Public Comment on Unemployment Measurement, basically text just excerpted from the June 5th [Commentary No. 810](#), has been posted to the ShadowStats home page under Special Reports. This is not the pending Special Report on the economy, which will follow shortly after first-half data availability.

Best wishes to all — John Williams

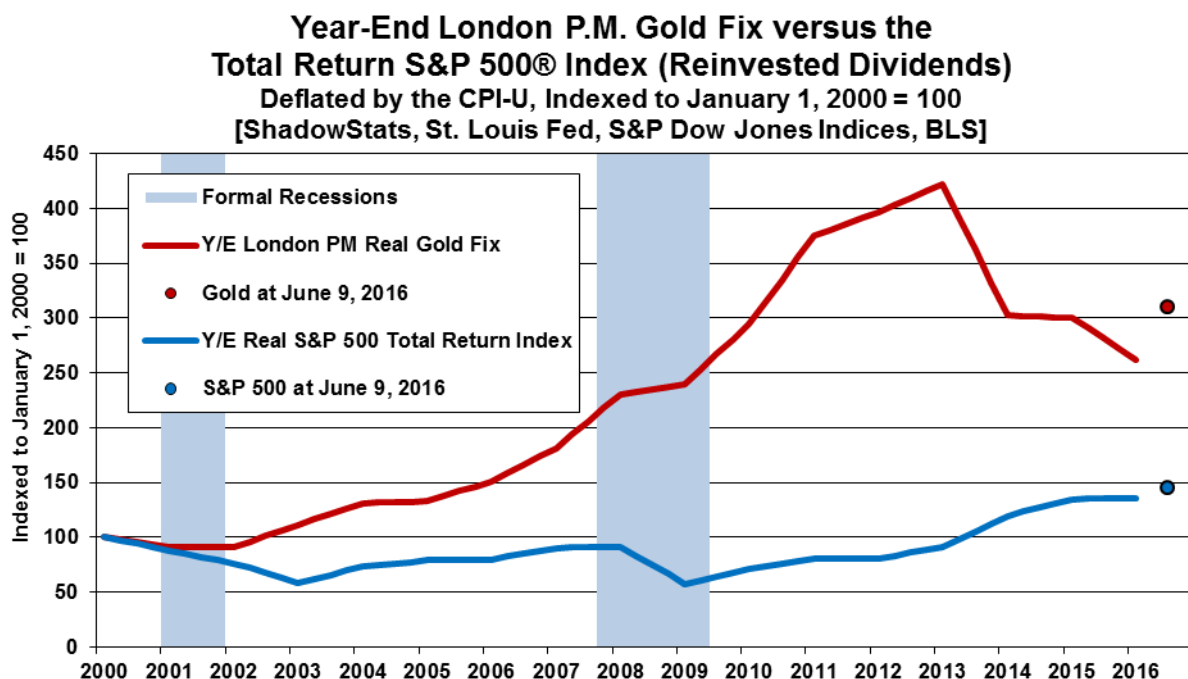
GENERAL COMMENTS

Next Week's Headline Economic Detail Should Offer Some Market-Disruptive, Negative Economic Surprises. Continuing the economic discussion in the *Opening Comments* of [Commentary No. 810](#) (incorporated here by reference), and the accompanying, extraordinarily-weak detail on labor-market conditions for May 2016, next week's daily economic releases, from June 14th to June 17th, should offer negative surprises. The downside news not only should catch-up with generally bloated April reporting, affected by a number of non-recurring events or unusual seasonal adjustments, but also as a general confirmation of rapidly slowing activity evident in the otherwise, heavily-upside-biased May 2016 payroll-employment numbers.

With no major economic releases this week, next week's heavy reporting activity and likely results are summarized in the *Week and Month Ahead* section. An assessment of the new data through June 17th will be included in *Commentary No. 815* of that date. This *General Commentary* updates and reviews market reactions to economic news, as they affect the value of the U.S. dollar and related gold, silver and oil prices, as well as the latest fundamental *Consumer Liquidity Conditions*, which drive the economy.

Central Banks Do Their Best to Pummel Gold and to Boost Stock Prices. The U.S. Federal Reserve and other central banks have backed a variety of actions in recent years (including interventions) to discourage private investment in gold. If not, the multiple, massive, deliberate and destructive market interventions that took place would have been investigated, not ignored by regulatory authorities.

Graph 1: Indexed, Inflation-Adjusted Gold versus the Total Return S&P 500 (to June 9, 2016)



With that background, consider *Graph 1*, which plots the year-end gold price, versus the year-end value of the total return S&P 500® (with dividends reinvested). Both series are deflated for the headline CPI-U inflation, and are indexed to January 1, 2000 = 100 (reflecting the last closing value in 1999). The plot is annual, again, reflecting the last closing price of the just-closed year, except for the separate points on the far right. They reflect values as estimated for June 9, 2016. Despite all the Federal Reserve machinations, the central-bank-dampened gold price appears to be having a better year, so far, than the central-bank-propped stock market.

With an FOMC June 15th Rate Hike Now Viewed as Unlikely, There Has Been Some Minimally-Increased Movement Out of the U.S. Dollar. As the economy has shown an intensifying downturn, a process that should accelerate into the July 29th GDP benchmark revisions, FOMC rate-hike speculation appears to have been shifted to beyond next week's June 15th FOMC Statement. Yet, as global central bankers continue to fight the Panic of 2008, they still have no way out (see [No. 777 Year-End Special Commentary](#)). Inaction and jawboning appear to be their favored and safest approaches to the various crises.

From a practical standpoint, though, despite jawboning aimed at manipulating equity markets and the U.S. dollar's exchange rate, no rate hike is likely until after the November 8th election. That reflects an intensifying downside movement in U.S. economic activity, in the context of already-present political conflicts of interest.

The rapidly approaching big problem for the U.S. Federal Reserve is that the U.S. economy likely will be in a formal "new" recession soon, by mid-August. Market speculations under such a circumstance likely would move rapidly towards some expanded form of Quantitative Easing (QE4). Such considerations increasingly should savage the exchange-rate value of the U.S. dollar, placing meaningful upside pressure on the prices of gold, silver and oil. The more troubled the economy and the more intense the selling pressure on the U.S. currency, the more difficult circumstances also will become for the U.S. equity markets.

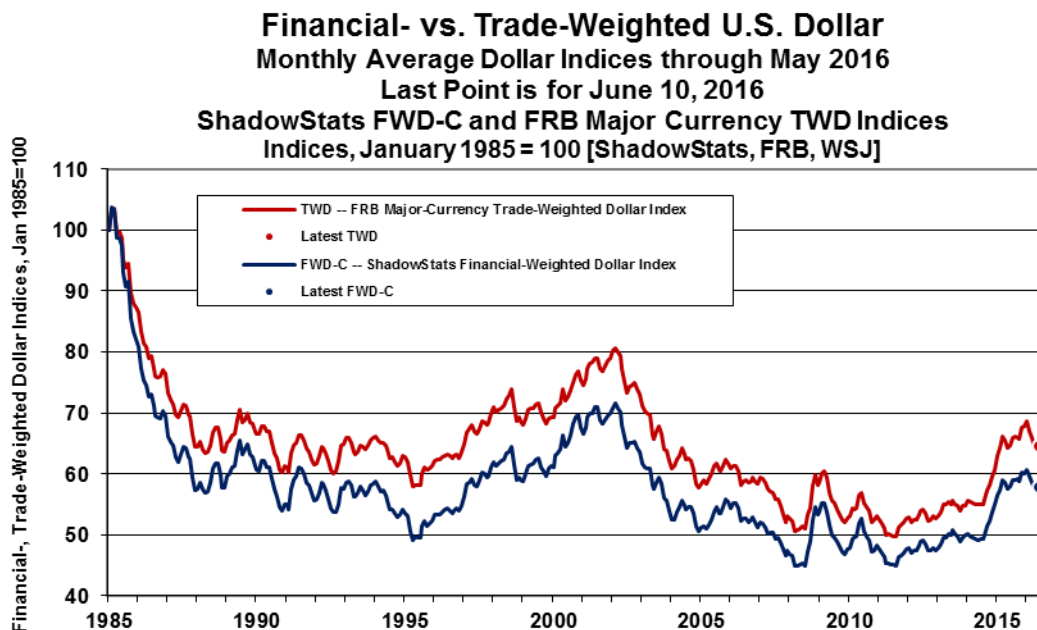
Deteriorating U.S. Economic Circumstances Should Intensify U.S. Dollar Selling. Domestic financial markets should be assessing the U.S. economy in the context of a renewed and rapidly deteriorating economic contraction, no later than within a month of the July 29th GDP benchmark revisions, and very possibly, as soon as the end of June.

Again (see [No. 777](#)), in response to a variety of factors, led by the seriously troubled domestic economy and exacerbated by the Fed and other central banks moving towards ever-expanding easing and currency debasement, risk of extreme flight from the U.S. dollar is high. A massive dollar debasement continues to threaten an increasingly rapid, upturn in energy and global-commodity inflation, which would drive headline U.S. consumer inflation much higher. That process increasingly appears to be underway, and it should accelerate in tandem with the renewed tumbling in U.S. economic activity.

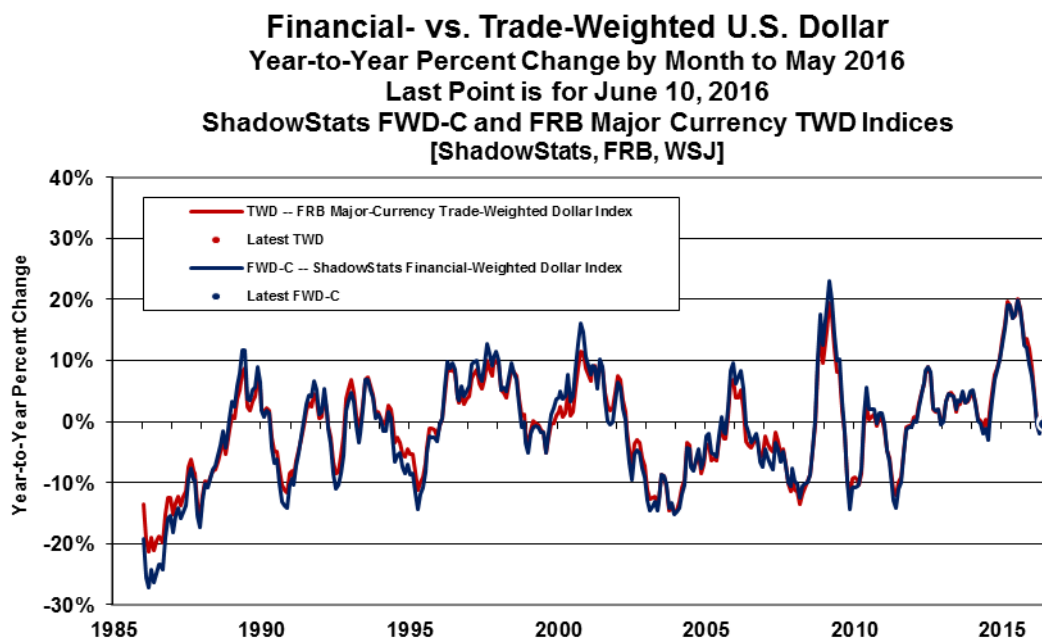
Monthly plots of the U.S. Dollar (*Graphs 2 and 3*), along with the three gold graphs (*Graphs 5, 6 and 7*) that regularly would accompany next week's *CPI Commentary*, follow. The trade- and financial-weighted dollar measures have shown increased volatility, as global markets increasingly appear not to buy the concept that all is right with the U.S. financial system, economy and political system. The "Latest June" points in these graphs reflect mid-afternoon New York prices for today, June 10th.

Please note, detailed in [Commentary No. 772](#), the ShadowStats Financial-Weighted Dollar measure recently was expanded to incorporate that Chinese Yuan (CNY)/Renminbi (RMB). The effects of that change, however, barely make a visible difference in the index.

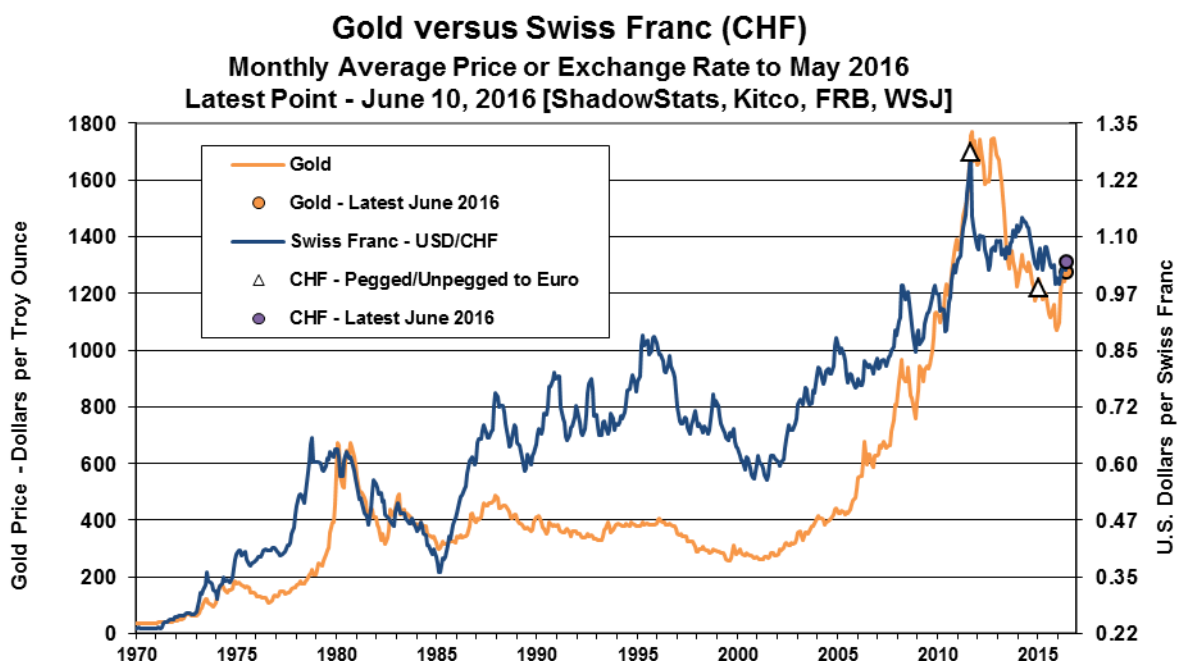
Graph 2: Financial- versus Trade-Weighted U.S. Dollar



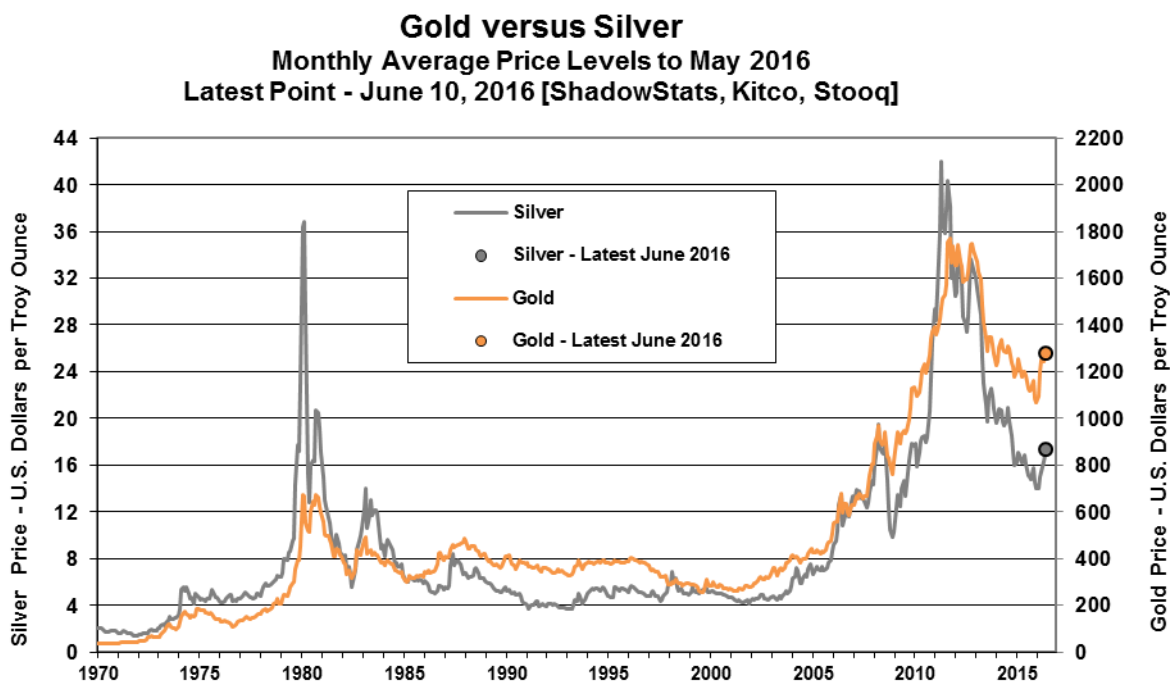
Graph 3: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar



Graph 4: Gold versus the Swiss Franc



Graph 5: Gold versus Silver

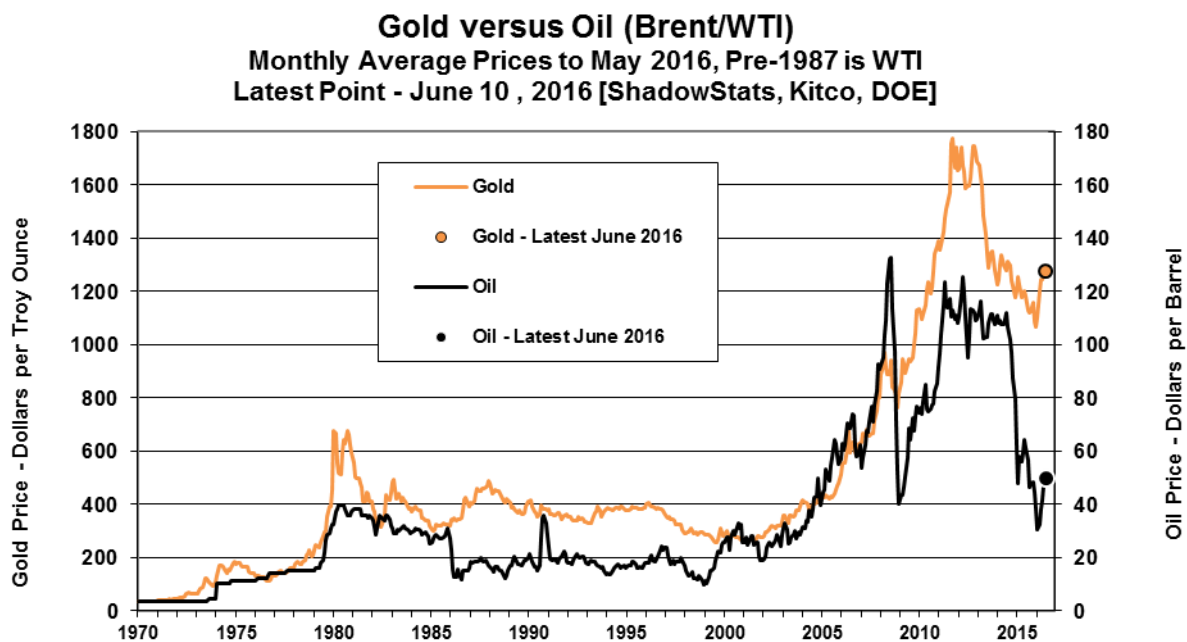


Oil prices generally have rebounded further—despite little if any relief from the oil glut—in response to the weakening U.S. dollar. Supply and demand issues aside, U.S. dollar-denominated oil prices have a negative correlation of eighty-percent with the trade- or financial-weighted dollar. That means that when

the U.S. dollar declines, oil prices rally about eighty-percent of the time in response. In reverse, a dollar rally tends to depress oil prices.

Heavy dollar selling threatens to rekindle headline U.S. inflation. As the U.S. dollar faces continued, 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, such protection needs to be held in place through the peak of the crisis.

Graph 6: Gold versus Oil



Consumer Liquidity Conditions Still Constrain Sustainable Economic Recovery. Consumer conditions last were reviewed fully in [Commentary No. 806](#), supplemented in [No. 808](#) and [No. 810](#), with more extensive detail available in [No. 777 Year-End Special Commentary](#). Updated here since the last supplement are the latest monthly (released June 7th) and quarterly (released June 9th) consumer credit measures and the University of Michigan's early-June Consumer Sentiment (released today, June 10th).

Underlying fundamentals to consumer economic activity, such as liquidity, have been severely impaired in the last decade or so, driving economic activity into collapse and preventing meaningful or sustainable economic rebound, recovery or ongoing growth. The level of and growth in sustainable real income, and the ability and willingness of the consumer to take on new debt remain at the root of the liquidity issues.

Generally, the higher and stronger those measures are, the healthier is consumer spending. Most measures of consumer liquidity and attitudes are off their lows, and one—real monthly median household income—actually had been spiked recently to pre-recession levels by the temporary collapse in gasoline prices, as reflected in the deflating and otherwise underestimated headline CPI-U inflation, but it has since begun to move lower, again, with a pickup in inflation. Yet, these underlying economic fundamentals simply have not supported, and do not support a turnaround in broad economic activity. Never truly recovering in the post-Panic era, limited growth in household income and credit, and a still generally,

faltering consumer outlook, have eviscerated and continue to impair broad, domestic U.S. business activity, which feeds off the financial health and liquidity of consumers.

Such has driven the housing-market collapse and ongoing stagnation in consumer-related real estate and construction activity, as well as constraining both nominal and real retail sales activity and the related, personal-consumption-expenditures and residential-construction categories of the Gross Domestic Product (GDP). Together, those sectors account for more than 70% of total GDP activity in the United States.

Now, with the economy never having recovered fully from the collapse into 2009, consumers again are pulling back on consumption, as evidenced by a renewed slowdown in broad economic activity. There has been no economic recovery, and there remains no chance of meaningful, broad economic growth, without a meaningful, fundamental upturn in consumer- and banking-liquidity conditions.

The relative distribution of income among the general population—income variance—also is a significant indicator of the health of an economy as well as the attendant financial markets. At its current extremes, the imbalances are consistent with continued economic disruption and significant, negative financial-market turmoil (such is detailed in the general discussion of [No. 777 Year-End Special Commentary](#)).

Household Income Measures Signal Broad-Based Economic Difficulties. Discussed and graphed in [Commentary No. 752](#) are the Census Bureau's most-recent (2014) annual measures of household income. Unexpected weakness in some of the headline annual income data, though partially masked by changes in survey questions, signaled increasing liquidity difficulties for U.S. households. The headline 2015 detail is planned for release in September 2016.

Shown first in *Graph 7* is the latest monthly real median household income detail through April 2016, as reported by www.SentierResearch.com. The headline reporting appears to have stalled and begun to turn down anew in statistically-insignificant flutterings around its near-term January 2016 peak.

This measure of real monthly median household income generally can be considered as a monthly version of the annual detail shown in *Graph 8*, but the monthly specifics are generated from separate surveying and questioning by the Census Bureau.

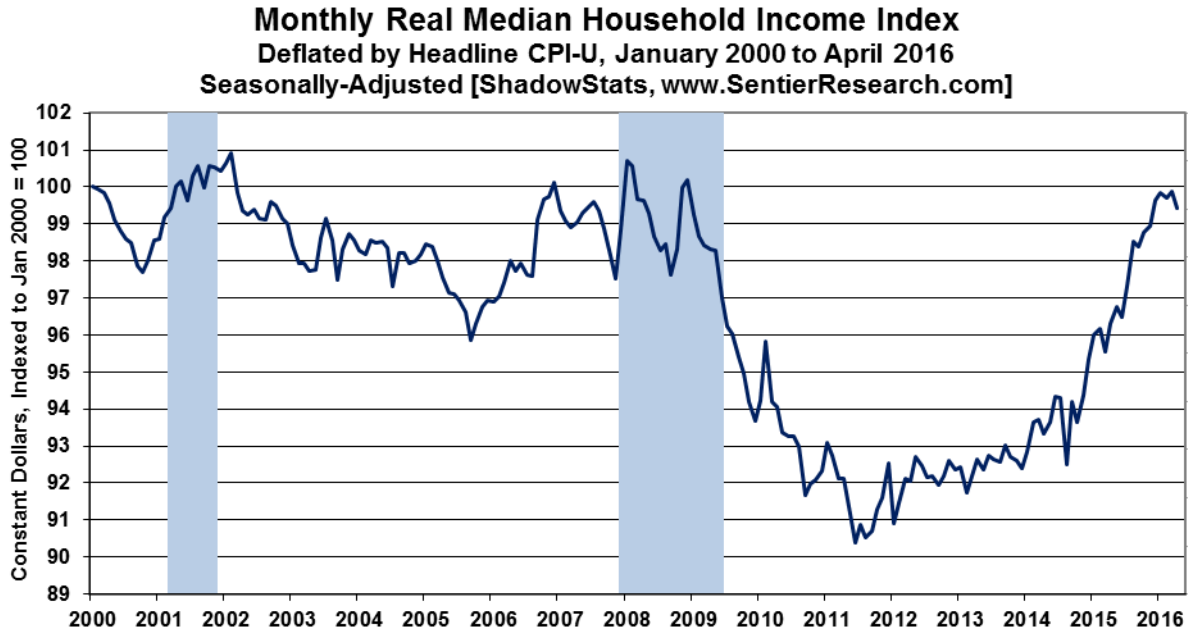
On a monthly basis, when headline GDP purportedly started its solid economic recovery in mid-2009, the monthly household income number nonetheless plunged to new lows. Generally, the income series had been in low-level stagnation, with the recent uptrend in the monthly index boosted specifically by collapsing gasoline prices and the related, negative headline consumer inflation. The index reached pre-recession levels in the December 2015 reporting, but it remains minimally below the pre-recession highs for both the formal 2007 and 2001 recessions. It should continue to turn down anew as consumer inflation rebounds in the months ahead.

Where lower gasoline prices have provided some minimal liquidity relief to the consumer, indications are that any effective extra cash generally has been used to pay down unsustainable debt or other obligations, not to fuel new consumption. Again, the effects of lower gasoline prices are beginning to reverse as prices climb anew.

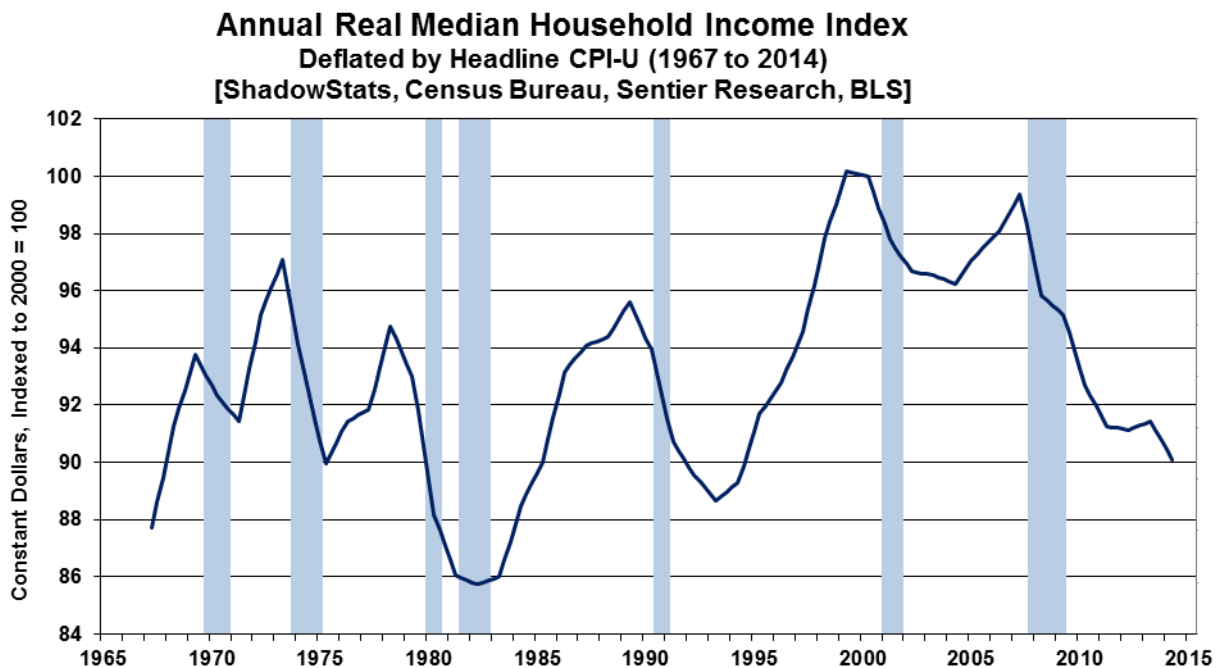
Differences in the Monthly versus Annual Median Household Income. That general pattern of relative historical weakness also has been seen in the headline reporting of the annual Census numbers, shown in *Graph 8*, with the latest 2014 real annual median household income at a ten-year low. The Sentier

numbers had suggested a small increase in 2014 versus 2013 levels. Still, the monthly and annual series remain broadly consistent, although based on separate questions within the monthly Consumer Population Series (CPS), as conducted by the Census Bureau.

Graph 7: Monthly Real Median U.S. Household Income through April 2016



Graph 8: Annual Real Median U.S. Household Income through 2014



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

Again, discussed in [Commentary No. 752](#), the Census Bureau changed its annual income questionnaire for 2014, with the effect of boosting income levels reported in 2014. The details on changes between 2013 and 2014, however, also were available on a consistent and comparable basis, and the consistent aggregate annual percentage change of median household income in 2014, versus 2013, was applied to the otherwise consistent historical series to generate *Graph 8*.

In historical perspective from *Graph 8*, 2011, 2012 and 2013 income levels were below levels seen in the late-1960s and early-1970s, with the 2014 income level below the readings through most of the 1970s, aside from being at a ten-year low. Such indicates the long-term nature of the evolution of the major structural changes squeezing consumer liquidity and impairing the current economy (see related discussions in [2014 Hyperinflation Report—The End Game Begins](#) and particularly [2014 Hyperinflation Report—Great Economic Tumble](#)).

Consumer Confidence, Sentiment and Credit. The weakening May 2016 reading for the Conference Board's Consumer-Confidence measure and the small pullback in the early-June 2016 reading for the University of Michigan's Consumer-Sentiment measure are reflected in *Graphs 9 to 11*.

The sentiment and confidence indications are accompanied by the latest readings on first-quarter 2016 household-sector credit-market debt outstanding (*Graph 12*) and April 2016 consumer credit outstanding (*Graph 13*).

For purposes of showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs 9 to 11* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

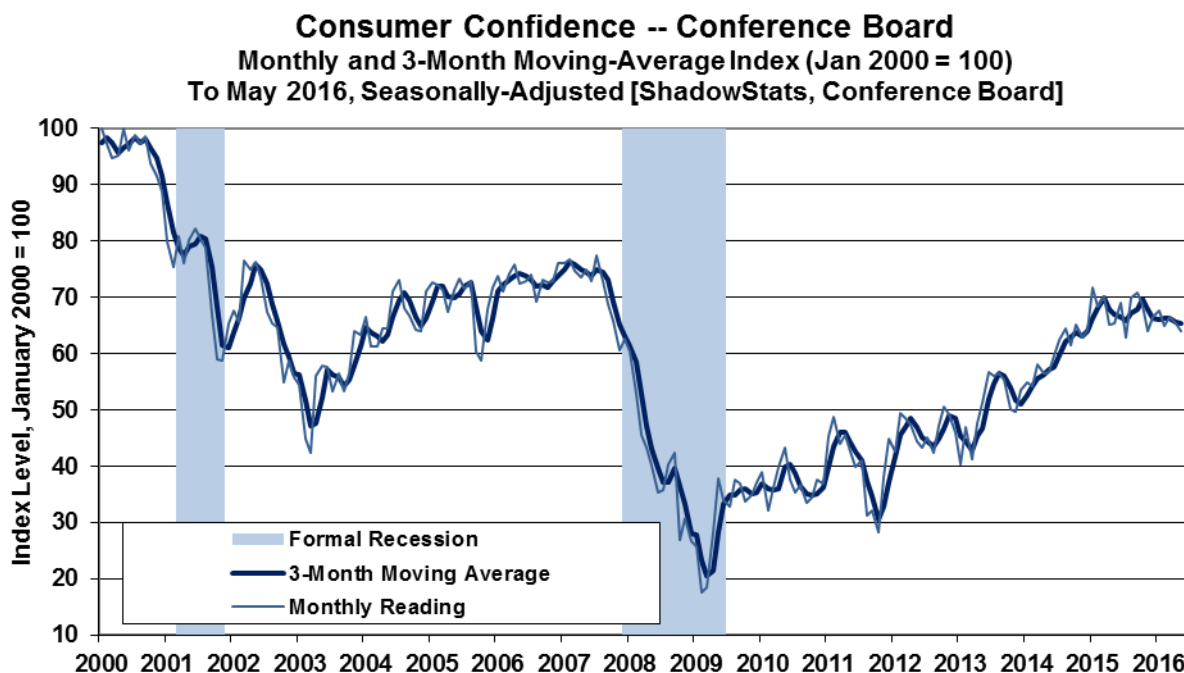
The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index (*Graph 9*) declined in both April 2016 and May 2016, with the three-month moving average down by 6.8% (-6.8%) from its peak in March 2015.

The University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph 10*) soared in the early-May 2016 reading, eased back slightly in its final version, and moved minimally lower in early-June, with its three month-moving average, as of early-June 2016, still down by 3.2% (-3.2%) from its February 2015 peak.

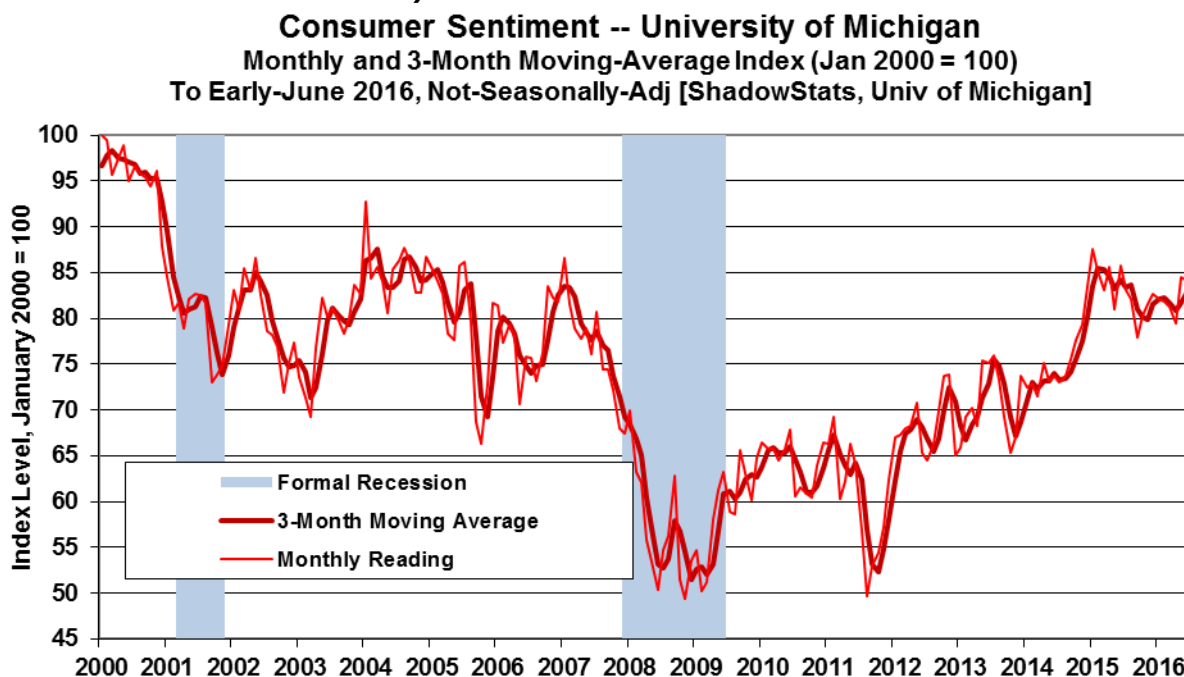
Both series also continued to hold off near-term peaks, as smoothed for six-month moving-average readings (*Graph 11*), with the measures down respectively by 3.7% for Confidence and by 3.0% for Sentiment from their June 2015 highs.

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

Graph 9: Consumer Confidence to May 2016



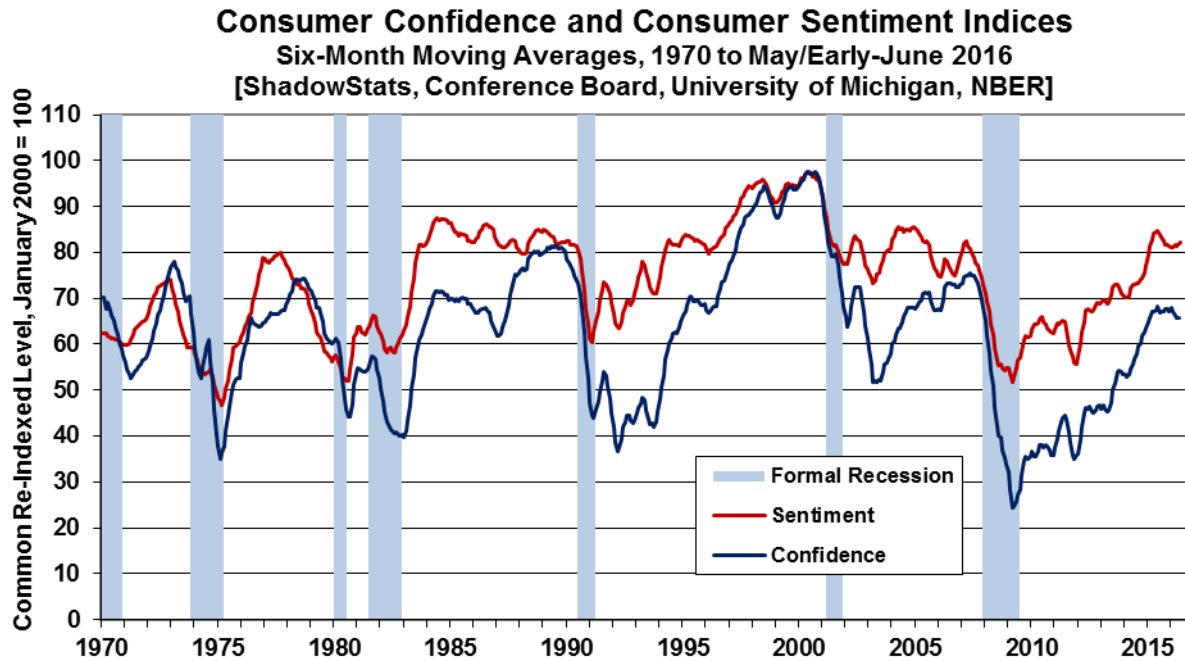
Graph 10: Consumer Sentiment to Early-June 2016



Smoothed for irregular, short-term volatility, the two series remain at levels seen typically in recessions. Suggested in *Graph 11*—plotted for the last 45 years—the latest readings of Confidence and Sentiment generally have not recovered levels preceding most formal recessions of the last four decades. Broadly,

the consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth seen in 2014 and as indicated for second-and third-quarter 2015 GDP growth.

Graph 11: Comparative Confidence and Sentiment (6-Month Moving Averages) since 1970



The final two graphs in this section address consumer borrowing. Debt expansion can help make up for a shortfall in income growth. Shown in *Graph 12 of Household Sector, Real Credit Market Debt Outstanding*, household debt declined in the period following the Panic of 2008, and it has not recovered, based on the Federal Reserve's flow-of-funds accounting for first-quarter 2016.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce.

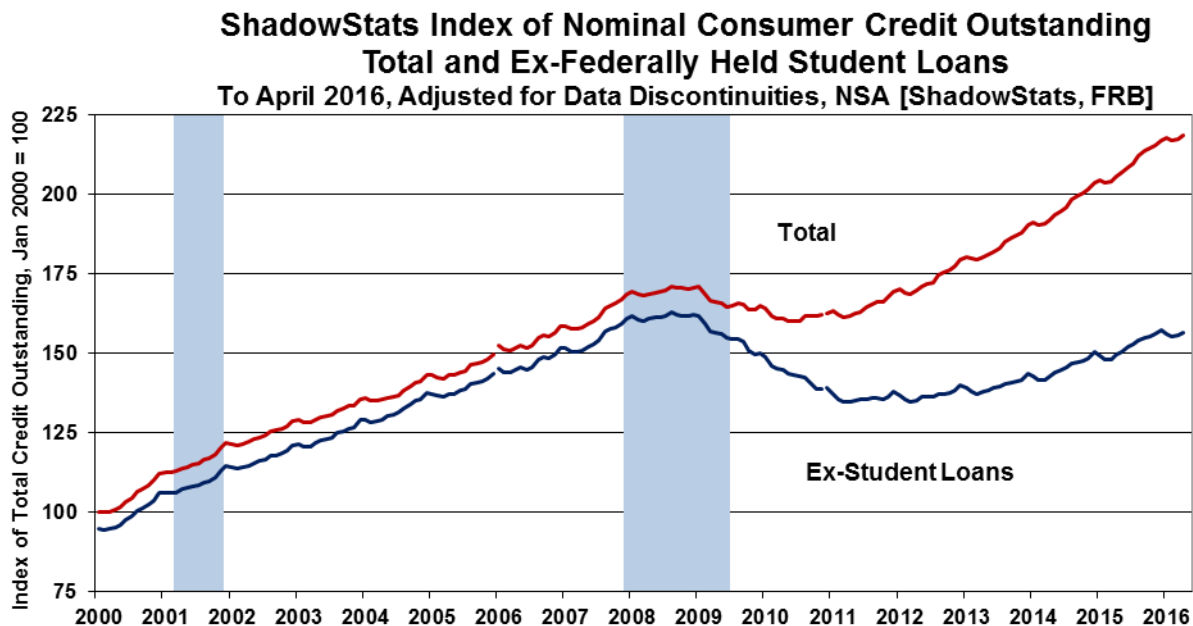
The slight upturn seen in the series through 2015 and into first-quarter 2106, as also seen in the patterns of the real monthly median household income survey, was due primarily to gasoline-price-driven, negative CPI inflation, which continues to impact the system (see discussion on *Median Household Income*). Current activity has also reflected surging student loans, as shown in the *Graph 13*.

Shown through April 2016 reporting, *Graph 13* of monthly Consumer Credit Outstanding is a subcomponent of *Graph 12* on real Household Sector debt, but *Graph 13* is 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 April 2016 and other recent monthly levels reflecting something of an unadjusted seasonal dips or jumps.

Graph 8: Household Sector, Real Credit Market Debt Outstanding through First-Quarter 2016



Graph 9: Nominal Consumer Credit Outstanding through April 2016



WEEK AND MONTH AHEAD

Economic Deterioration Should Intensify in the Weeks and Month Ahead, Increasingly Pummeling the U.S. Dollar and Boosting Gold, Silver and Oil Prices. Market expectations for business activity should deteriorate at an accelerating pace, amidst intensifying, negative headline economic reporting and continued Fed-policy waffling in the near term. The general trend in weakening expectations for business activity and movement towards looming recession recognition, reflect a broad spectrum of market-disappointing headline data. Background is discussed in today's *General Comments* and detailed otherwise in [Commentary No. 810](#), [Commentary No. 809](#), [Commentary No. 808](#), [Supplemental Commentary No. 807-A](#), [Commentary No. 807](#), [Commentary No. 806](#), [Commentary No. 800](#), [Commentary No. 799](#), [Commentary No. 796-A](#), [Commentary No. 796](#) and [No. 777 Year-End Special Commentary](#).

In response to perpetual economic non-recovery and a renewed, intensifying downtrend in underlying economic activity, negative market reactions have surfaced in trading of the U.S. dollar and in related financial markets, with upside pressures on gold, silver and oil prices—although market activity is somewhat mixed on oil at the moment—as discussed in [No. 807](#) and [No. 799](#). These market reactions reflect, at least in part, an intensifying sense of Federal Reserve impotence, despite any near-term games being played by the U.S. central bank. Further tightening by the Fed prior to the election remains unlikely, despite the continuing “good cop” versus “bad cop” routine (“rates are going” or “rates are not going up”) used by various Fed officials with the investment community. Instead, renewed quantitative easing could become a target of intensified market speculation as the deepening recession unfolds and becomes increasingly obvious in the next several months.

Rapidly weakening, regular monthly economic reporting should be accompanied by much worse-than-expected—negative—reporting for at least the next several quarters of GDP (and GDI and GNP), as seen minimally with the initial reporting of a first-quarter 2016 contraction in the Gross National Product (GNP)—the broadest measure of U.S. economic activity—as reported in [No. 809](#).

Such includes reasonable odds of a reported outright quarterly contraction in first-quarter 2016 GDP in the June 28th second monthly revision, as well as pending, meaningful downside revisions to GDP history (including likely headline quarterly contractions in first-quarter 2015, fourth-quarter 2015 and first-quarter 2016, should it still be in positive territory) come the July 29, 2016 annual GDP benchmark revisions.

Consistent with the relatively neutral benchmark revisions to retail sales and housing starts, and in line with recent sharp downside revisions to industrial production, durable goods orders, and the annual revisions to the real merchandise-trade deficit and likely negative benchmark revisions to construction spending next month, expectations for the GDP benchmarking also should fall sharply. Discussed in the *Opening Comments* of [No. 810](#), upside redefinitions to the service-sector trade surplus could have some minimal upside revision impact pre-2015. Nonetheless, that GDP benchmarking now appears to be the most-likely point at which the elements for a “formal” recession call will be in full play.

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—likely has seen its near-term, year-to-year low. Headline monthly March and April 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation is on track to rise further in May (see *Pending Releases*) and likely going forward, still boosted by a weakening U.S. dollar environment, and a continued, related upturn in oil prices and other commodities. Fundamental reporting issues with the headline CPI also 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 nine-to-eleven 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](#).

Further, discussed in [Commentary No. 778](#), a heretofore unheard of spate of “processing errors” 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](#)). John Crudele of the *New York Post* continues his investigations in reporting irregularities: [Crudele Investigation](#).

PENDING RELEASES:

Nominal and Real Retail Sales (May 2016). The Census Bureau has scheduled release of April 2016 nominal (not-adjusted-for-inflation) Retail Sales for Tuesday, June 14th, which will be covered in *Commentary No. 812* of that date. Real (inflation-adjusted) Retail Sales for May will follow on June 16th, in *ShadowStats Commentary No. 814*, in conjunction with the publication of detail on headline May CPI-U.

With high odds of continued monthly increases in the May CPI, there is a parallel chance for real sales growth in May to be more-negative or weaker than the headline nominal sales activity. The pace of annual CPI-U inflation also should remain positive, helping to generate a deepening recession signal in historically low-level, annual Real Retail Sales growth.

Market expectations likely will be on the plus-side of flat for the monthly change in the headline Nominal May Retail Sales, but April booming monthly gain in automobile sales and should not be repeating. An outright nominal sales contractions and downside revisions to March and April 2016 reporting always are good bets. Key, though, is that any headline increase in nominal retail sales likely will not top the headline inflation rate, which means that real retail sales should contract for the month.

Continuing to constrain personal-consumption expenditures and retail sales is the extreme liquidity bind besetting consumers, as fully updated earlier in the *Consumer Conditions* section, and more broadly covered in [No. 796](#). Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise, and consumer-related construction such as housing starts.

Index of Industrial Production (May 2016). The Federal Reserve Board will release its estimate of Industrial Production activity for May 2016 on Wednesday, June 15th, with coverage in *Commentary No. 813* of that date. Headline reporting likely will continue on the downside, both month-to-month and year-to-year, with continuing revisions to the last six months of data.

The outlook for second-quarter 2016 likely will turn from the current, bloated, small annualized growth rate, to a solid quarterly contraction, which would be the third-consecutive quarterly decline, the fifth decline in the last six quarters. That would be accompanied by a deepening pattern of year-to-year annual decline by quarter, the third such consecutive circumstance; one that never has been seen outside of a formal recession in the 97-year history of the production series.

Wherever consensus indications settle for relative monthly activity in May, expectations have been disappointed fairly consistently on the downside in the last year or so of activity. Accordingly, headline reporting and monthly revisions remain good bets to offer negative surprises versus consensus forecasts.

Producer Price Index—PPI (May 2016). The Bureau of Labor Statistics (BLS) will release the May 2016 PPI also on Wednesday, June 15th. Odds favor a headline gain in wholesale inflation, at least on the goods side of the reporting, due to a continued rebound in oil prices and related products.

Unadjusted oil prices rose sharply, again, in May 2016, along with a continued rise in gasoline prices. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices rose by 13.2% and 14.6%, in conjunction with some weakening in the U.S. dollar. That was accompanied by a second consecutive 7.0% rally in unadjusted monthly-average retail-gasoline prices (Department of Energy). Where PPI seasonal adjustments for energy costs in May are minimally negative, they still should leave the adjusted Final Demand Goods component of the PPI up by about 0.3%.

Oil prices have been rallying consistently enough, that the aggregate PPI number—often hit by some offsetting, more-negative and counterintuitive “inflation” in the dominant services sector—appears also to be moving some in a positive direction, which conceivably could put the aggregate headline PPI up by 0.3% to 0.4% for the month. Guesstimation in that services sector, however, remains highly problematic.

The counterintuitive pricing pressures from shrinking profit margins with the sharply rising oil prices are discussed in *Inflation that Is More Theoretical than Real World?* on page 18 of [Commentary No. 806](#).

Consumer Price Index—CPI (May 2016). The Bureau of Labor Statistics (BLS) will release the May 2016 CPI on Thursday, June 16th, and it will be covered in *Commentary No. 814* of that date. The headline May CPI-U should increase month-to-month by roughly 0.3%, or more, reflecting rebounding gasoline prices plus higher non-energy inflation. Headline annual inflation in May 2016 likely held around 1.1% for the second month.

Continuing Positive Inflation Impact from Gasoline Prices. Average gasoline prices continued to increase in May 2016, up by 6.99% for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). Where BLS seasonal adjustments to gasoline prices in May traditionally are negative, they would reduce the unadjusted price gain, but leave it in positive territory. Adjusted gasoline prices should rise by enough to add a positive 0.12% to the headline CPI-U monthly change. Boosted as well by higher food and “core” (net of food and energy) inflation, a headline monthly CPI-U gain of 0.3%, or higher, once again, is a reasonable expectation.

Annual Inflation Rate. Noted in [Commentary No. 807](#), year-to-year, CPI-U inflation would increase or decrease with the May 2016 monthly reporting, dependent on the seasonally-adjusted monthly change, versus the adjusted, headline gain of 0.29% in May 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 May 2016, the difference in May’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the April 2016 annual inflation rate of 1.13%. For example, a seasonally-adjusted, headline monthly gain of 0.3%, which appears within reason for the May 2016 CPI-U, would hold the annual CPI-U inflation rate for May 2016 at about 1.1%

Residential Construction—Housing Starts (May 2016). The Census Bureau will release May 2016 residential construction detail on Friday, June 17th, covered in *Commentary No. 815* of that date.

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. After the extreme surge in headline April starts, May reporting likely to be on the catch-up downside, which is where consensus estimates likely will fall, but still well shy of statistical significance.

Irrespective of the generally meaningless headline detail (although a headline monthly downturn and downside revision to April are reasonable expectations), the broad pattern of housing starts should remain consistent with the low-level, stagnant activity, seen in the series at present, where April 2016 activity remained down by about 48% (-48%) from the pre-recession high of the series. Such is particularly evident with the detail viewed in the context of a six-month moving average. Separate from the benchmarking, this series also is subject to regular and extremely-large, prior-period revisions.

Discussed in [Commentary No. 660](#) on the August 2014 version of this most-unstable of major monthly economic series, the monthly headline 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.

Continuing to constrain spending, the circumstances surrounding the ongoing the extreme liquidity bind besetting consumers, again have been updated fully in the *Consumer Conditions* section. Without

sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for an income shortfall, the U.S. consumer is unable to sustain positive growth in domestic personal consumption, including residential real estate and real retail sales.
