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

COMMENTARY NUMBER 853
October Trade Deficit, December FOMC Meeting

December 6, 2016

Re-Exploding Trade Deficit Suggested a Hit to Fourth-Quarter 2016 GDP

November 2016 CPI-U Annual Inflation Could Break Above Near-Term Highs Seen in the Pre-Oil-Price-Collapse Environment of 2014

Once Again, Market Expectations Are for a Looming Rate Hike

**Embroiled in Its Own Credibility Issues,
FOMC Still Faces a Deteriorating Economy and Unstable Global Circumstances**

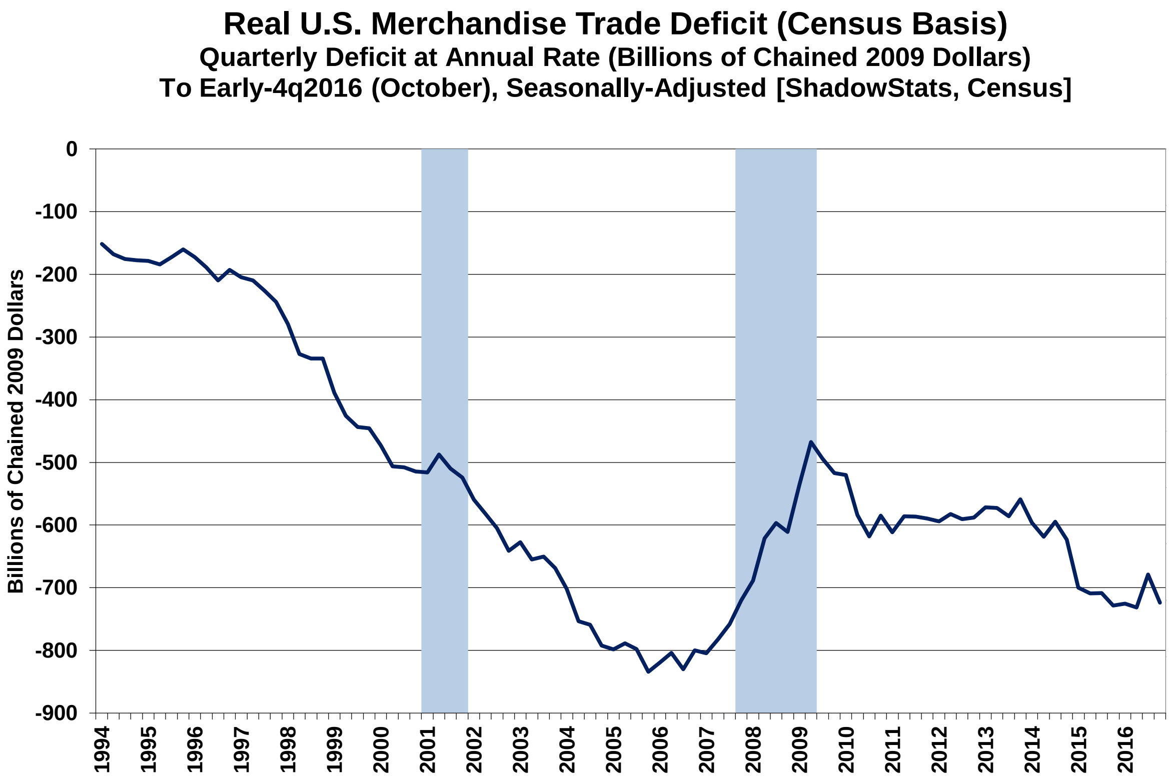
PLEASE NOTE: The next regular Commentary, *scheduled for Wednesday, December 14th, will cover November Retail Sales, Industrial Production and the Producer Price Index (PPI) including a full update to Consumer Liquidity conditions, with subsequent* Commentaries *on December 15th, covering the November Consumer Price Index (CPI) and related real retail sales and earnings, and on December 16th, covering November Housing Starts.*

Please call at (707) 763-5786 if you have questions or would like to discuss current issues or otherwise. Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Exploding October Trade Deficit Indicated Significant Fourth-Quarter GDP Deterioration. Reflected in the accompanying graph, the headline October 2016 inflation-adjusted, real merchandise trade deficit widened sharply, putting the early fourth-quarter 2016 deficit on track to match the first- and second-quarter 2016 deficits as the worst in nine years, since third-quarter 2007.

Inflation-Adjusted, Quarterly U.S. Merchandise Trade Deficit through Early-4q2016



The third-quarter 2016 real merchandise trade shortfall had narrowed sharply versus second-quarter activity, due to one-time factors such as an unusual surge in soybean exports. The effect was a sharp narrowing of the deficit in the net-export account of third-quarter 2016 GDP reporting, contributing 0.9% of the headline 3.2% annualized real GDP growth (*Commentary No. 851*). If the level of the October deficit were to hold in November and December—it still is slightly below the monthly average for the first two quarters of 2016—net exports easily could subtract 0.9% (-0.9%) from headline real growth in fourth-quarter 2016 GDP. The quarterly estimates are found in the *Reporting Detail*.

Nominal October 2016 Trade Deficit. The nominal, not adjusted for inflation, seasonally-adjusted monthly trade deficit in goods and services for October 2016, on a balance-of-payments basis, widened by $6.435 billion to $42.601 billion, versus a revised, slightly narrower September 2016 deficit of $36.166 billion. The monthly deterioration in deficit reflected a drop of $3.413 billion in monthly exports (dominated by reduced soybean exports), and exacerbated by a $3.022 billion jump in imports (dominated by surging consumer and capital goods, and reduced autos). The headline October 2016 deficit also widened versus a $41.600 billion trade shortfall in October 2015. Minimal shifting in activity tied to energy-related products did not have heavy impact on the monthly trade balance changes.

See the *Reporting Detail* section for expanded information on the October 2016 U.S. trade balance.

Bemoaning Its Own Credibility the FOMC Has Suggested Again that It Might Raise Rates on December 14th. With some members of the Federal Reserve's Federal Open Market Committee (FOMC) raising the issue of the Federal Reserve's credibility and the need to raise interest rates soon, the financial markets currently are expecting a rate hike out the December FOMC meeting, on December 14th. As described in the FOMC minutes of the prior meeting of November 1st and 2nd:

> Most participants expressed a view that it could well become appropriate to raise the target range for the federal funds rate relatively soon, so long as incoming data provided some further evidence of continued progress toward the Committee's objectives. Some participants noted that recent Committee communications were consistent with an increase in the target range for the federal funds rate in the near term or argued that to preserve credibility, such an increase should occur at the next meeting. A few participants advocated an increase at this meeting...

So once again, the markets are expecting an imminent rate hike, and there is a fair chance that finally will happen, or maybe not. The ongoing problem for the Federal Reserve remains the perpetual non-recovery in U.S. economic activity and the headline signs of renewed deterioration. Aside from nonsense boosts in recent retail sales and housing starts activity, other key indicators show serious, ongoing problems with business activity, and there are very fine economists within the Federal Reserve who know that.

Consider today's (December 6th) sharp, headline deterioration in the October 2016 trade deficit and its negative implications for the GDP (see the *Reporting Detail*).

Consider the employment and unemployment reporting for November 2016 (see *Commentary No. 852*), where annual payroll growth held at an unusually-low level of year-to-year change, and where the sharp drop in the unemployment rate was due to the unemployed leaving the labor force, not finding new jobs. Fed Chair Janet Yellen's favorite household survey metric, the participation rate (labor force/population), took a negative hit. The Conference Board also reported very troubling monthly and annual downturns in its online help-wanted advertising for November.

Before the FOMC announcement on December 14th, headline detail on November retail sales and the Fed's own industrial production series will be released, and those details likely will be disappointing as to unfolding domestic economic activity.

On the other side of Fed concerns, the November CPI will be released one day after the FOMC announcement, but the Fed already would have a good sense of that. Discussed in the *Week, Month and*

Year Ahead section, annual CPI-U in November should approach 2%, a high level not seen since July 2014, before the oil price collapse that drove down gasoline prices and related consumer inflation.

Nonetheless, discussed frequently here (see the opening paragraphs of the *Week, Month and Year Ahead* section), deteriorating economic activity remains a primary problem for the Federal Reserve. There is little the Fed can do to boost economic activity. Nonetheless, a deteriorating economy puts excessive stresses on the banking system, and there the Fed is committed to action.

Irrespective of any rate hike, or not, next week, the continuing economic collapse will force the Fed to provide liquidity to the banking system, most likely with some form of expanded quantitative easing in early 2017. Implications from that remain bleak for the U.S. dollar and bullish for precious metals (see the *Hyperinflation Watch* of *Commentary No. 849*). Such will be addressed next week, again, following the FOMC meeting.

Today's *Commentary* (December 6th). These *Opening Comments and Executive Summary* covered brief detail of today's reporting the October 2016 Trade Deficit. Those headline numbers are expanded upon in the accompanying *Reporting Detail*.

The *Week, Month and Year Ahead* previews next week's coverage of the November CPI, PPI, nominal and real Retail Sales, Industrial Production and Housing Starts.

REPORTING DETAIL

U.S. TRADE DEFICIT (October 2016)

Early-Fourth-Quarter 2016 Real Merchandise Trade Deficit Exploded Back to Prior Levels, Threatening Fourth-Quarter GDP. Graphed in the *Opening Comments*, the headline October 2016 real merchandise trade deficit widened sharply, putting the fourth-quarter 2016 deficit on track to match the first- and second-quarter 2016 deficits as the worst in nine years, since third-quarter 2007.

The third-quarter 2016 real merchandise trade shortfall had narrowed sharply versus second-quarter activity, due to one-time factors such as an unusual surge in soybean exports. The effect was a sharp narrowing of the net-export account deficit in third-quarter 2016 GDP reporting, contributing 0.9% of the headline 3.2% annualized real GDP growth (*Commentary No. 851*). If the level of the October deficit were to hold in November and December—it still is slightly below the monthly average for the first two quarters of 2016—the net export account easily could subtract 0.9% (-0.9%) from fourth-quarter 2016 GDP headline real growth.

Nominal (Not-Adjusted-for-Inflation) October 2016 Trade Deficit. The Bureau of Economic Analysis (BEA) and the Census Bureau reported this morning, December 6th, the nominal, seasonally-adjusted monthly trade deficit in goods and services for October 2016, on a balance-of-payments basis. Such was released in the context of a narrowing, in revision, of the September 2016 monthly deficit, in conjunction with a minor redistribution of monthly deficits back to April 2016.

The headline October 2016 deficit of $42.601 billion, widened by $6.435 billion versus a revised September 2016 deficit of $36.166 [previously $36.440] billion. The $6.435 deterioration in the headline monthly deficit reflected a drop of $3.413 billion in monthly exports, exacerbated by a $3.022 billion jump in imports. The headline October 2016 deficit also widened versus an unrevised $41.600 billion trade shortfall in October 2015. The dominant factors in the net deterioration of the October deficit were declining exports of food (soybeans) and industrial and consumer goods, with imports reflecting a more-than-offsetting increase in consumer goods, an increase in capital goods (computers), along with a decline in automobiles and automobile-assembly items.

The decline in auto-related imports generally was consistent with downside revisions to new orders and shipments in the October durable goods orders reporting, with related questions as to the sustainability and reality of other measures tied to surging auto sales (*Commentary No. 850*).

Once again, shifting activity in energy-related products did not have heavy impact on the monthly trade balance changes.

Energy-Related Petroleum Products. From an import standpoint, declining oil prices had bottomed out in February 2016, inching higher by 0.7% in March, gaining 6.5% in April, 16.0% in May, 15.2% in June and 4.2% in July, but they fell by 4.0% (-4.0%) in August and by a further 0.9% (-0.9%) in September, only to bounce anew by 2.5% in October 2016. The impact of the October price gain on oil imports largely was offset by declining physical oil-import volume in the month.

The not-seasonally-adjusted average price of imported oil rose to $40.01 per barrel in October 2016 versus $39.02 in September 2016, and it was down slightly from $40.12 per barrel in October 2015. Separately, not-seasonally-adjusted physical oil-import volume in October averaged 7.315 million barrels per day, down from 7.864 million in September 2016 but up from 6.670 million in October 2015.

Ongoing Cautions and Alerts on Data Quality. Potentially heavy distortions in headline data continue from seasonal adjustments. Similar issues affect other economic releases, such as labor conditions and retail sales, where the headline number reflects seasonally-adjusted month-to-month change. Discussed frequently (see *2014 Hyperinflation Report—Great Economic Tumble* for example), the extraordinary length and depth of the current business downturn and disruptions have distorted regular patterns of seasonality.

Separately, the "advance" detail on goods trade, released on November 25th, for once, gave a fairly good indication of the pending headline deterioration in the full trade detail, as released today.

Real (Inflation-Adjusted) October 2016 Trade Deficit. Seasonally-adjusted, net of oil-price swings and other inflation (2009 chain-weighted dollars, as used in GDP deflation), and in the context of a revised narrower deficit for September 2016, the October 2016 merchandise trade deficit (no services) widened to $60.348 billion, versus $54.154 [previously $55.014] billion, versus $57.418 billion in August, but narrowed versus a $60.997 billion deficit in October 2015.

Again, reflected in graph in the *Opening Comments*, the annualized quarterly real merchandise trade deficit was $623.1 billion for fourth-quarter 2014, $700.0 billion for first-quarter 2015, $709.1 billion for second-quarter 2015, $708.4 billion for third-quarter 2015, $728.6 billion for fourth-quarter 2015, $725.2 billion for first-quarter 2016, $731.3 billion for second-quarter 2016, a revised $679.2 [initially $682.7] billion for third-quarter 2016, and an early trend for the annualized quarterly real merchandise in fourth-quarter 2016 (based solely on initial October 2016 detail) of $724.2 billion.

Headline deficits likely will get much deeper in the months and quarters ahead, revising and intensifying the ongoing and more-common negative impact on headline GDP.

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WEEK, MONTH AND YEAR AHEAD

New Fiscal Stimulus Looms, but Trump Administration Needs to Develop a Credible, Long-Range U.S. Solvency Plan to Forestall a Dollar Disaster. Discussed in *Commentary No. 851*, a looming U.S. dollar crisis already is in play for the Trump Administration, from the outgoing Administration and a befuddled Federal Reserve. Despite expectations for better business conditions under a Trump Administration, market expectations for near-term (not long-term) business activity should continue to falter, amidst what should be ongoing and intensifying, negative headline economic reporting that will continue to play out for the next twelve months or so.

New fiscal stimulus under consideration by the incoming Administration will have at least a nine-month lead-time before its impact will surface in headline economic activity, most likely not before early-2018. Accordingly, the new Administration could face deteriorating funding needs for its own Treasury. In the near-term, the federal deficit should swell, reflecting revenue flows already impaired by the current economic downturn, as well as taking an initial hit from any new federal spending and or new tax relief, before hoped-for increased tax revenues begin to flow from a strengthened economy (see *Commentary No. 846*). As the federal deficit expands, global financial market concerns should begin to refocus on the long-term sovereign-solvency risks of the United States.

Discussed in today's *Opening Comments*, irrespective of mounting speculation of an FOMC rate hike on December 14th, the still-ongoing and deepening domestic economic downturn promises continuing and intensified stresses on systemic liquidity. That circumstance ultimately—sooner rather than later—dooms the U.S. central bank to an intensified quantitative easing, regardless of any near-term rate hike.

These circumstances reflect unusual crosscurrents in the markets, which, when combined with an impotent Fed and a re-intensifying banking and fiscal crises, foreshadow U.S. dollar and systemic crises in 2017. Separately, and most dangerously, the Trump Administration will have a difficult time working with or around the Federal Reserve's self-created quagmire of continuing domestic and global banking-system illiquidity issues. See the *Opening Comments* of *No. 851* and the *Hyperinflation Watch* in of *Commentary No. 849*.

Commentary No. 852 reviewed the November employment and unemployment headline details, which continued to highlight a number of reporting issues, far from the happy story put out by the popular media. Despite upside revisions to headline October construction spending, net of inflation, the activity there remained in broad, non-recovering stagnation.

Separate from developing banking-system liquidity issues, *No. 851* covered the second revision to third-quarter 2016 GDP, along with updated consumer liquidity conditions. *Commentary No. 850* reviewed October new orders for durable goods and new- and existing-home sales, where the latest details showed continuing non-recovery in all the covered series. Unfolding annual and quarterly contractions in new orders signaled negative pressures for first-quarter 2017 industrial production. Separately, downside revisions to shipments and orders suggested that surging auto sales, which have been boosting headline GDP and retail sales reporting, might not have been quite as strong as advertised.

Commentary No. 848 covered October industrial production and the PPI, where industrial production confirmed ongoing recession, and the PPI showed energy-related inflation turning positive year-to-year, for the first time since the 2014 collapse in oil prices. *Commentary No. 847* reviewed the highly-suspect headline surge in nominal October retail sales.

Covered in *Commentary No. 845*, October employment and unemployment, and September construction spending, did not offer a brightening economic outlook. The sharp narrowing in the September and third-quarter 2016 trade deficit generally reflected nonrecurring elements of highly-suspect quality.

Reviewed in *Commentary No. 844* was the above-consensus "advance" estimate of third-quarter 2016 GDP.

Commentary No. 843 offered a *Special Comment* on background economic circumstances and the then pending election, following up on *No. 841*. Headline related details from September new- and existing-home sales and from new orders for durable goods reporting also were reviewed. That followed *Commentary No. 842*, which assessed the negative shifts in monthly, quarterly and annual growth patterns of the housing-starts series.

Noted in *Commentary No. 841*, consumer inflation started to rebound, along with higher gasoline prices, yet the economy continued to falter as indicated in September freight activity, and as seen in the headline detail of September housing starts. The *Special Comments* in *No. 841* also looked a little deeper into the likely impact of unusually protracted and negative economic conditions on the presidential election and on the post-election environment for the U.S. dollar and precious metals.

September industrial production detail disappointed market expectations and deteriorated sharply in the context of downside, prior-period revisions. Such was reviewed in *Commentary No. 840*. *Commentary No. 839* provided the opening salvo of comments on the November 8th election and potential aftermath for the economy and the markets. Consumer liquidity conditions also were updated, along with a review of September 2016 nominal Retail Sales and the PPI.

September employment and unemployment circumstances were covered in *Commentary No. 838*. Fed-policy retrenchment should remain very much alive, shifting towards that renewed quantitative easing, in the post-election environment, as discussed in the *Opening Comments* of *No. 839*, and those of *Commentary No. 837* and *Commentary No. 835*, which respectively also reviewed the August trade deficit and construction spending, and August durable goods orders, home-sales activity and the most-recent FOMC inaction.

The general trend in weakening expectations for business activity and movement towards looming recession recognition, reflected an ongoing broad spectrum of market-disappointing headline data, such as seen in the industrial production detail (*No. 840*) and in *Commentary No. 832*. Earlier FOMC considerations also were covered in *Commentary No. 831*, while the initial payroll benchmark revision for 2016 was discussed in *Commentary No. 830*.

Broad economic and systemic details otherwise have been reviewed regularly in *Commentary No. 827*, *Commentary No. 826*, *Commentary No. 825*, *Commentary No. 824*, *Commentary No. 823*, *Commentary No. 822*, *Commentary No. 821*, *Commentary No. 820*, *Commentary No. 818*, *Commentary No. 817*, *General Commentary No. 811*, *Supplemental Commentary No. 807-A*, *Commentary No. 800*, *Commentary No. 799*, *Commentary No. 796-A*, *Commentary No. 796* and *No. 777 Year-End Special Commentary*.

Post-election market activity has seen positive boosts to the equity markets and the U.S. dollar, with sharply negative impact on prices of precious metals. Again, severe market concerns as to the Federal Reserve's quagmire should resurface fairly quickly, where negative market reactions had surfaced in trading of the U.S. dollar and in related financial markets, with some upside pressure on gold, silver and oil prices, subsequent to pre-election, weaker-than-expected headline economic data or suggestions of a less-aggressive tightening stance by the Fed. Then, Fed rate-hike jawboning put a temporary flutter into those market movements, placing some Fed-desired support under the U.S. currency.

Again, though, the fundamental liquidity issues facing the Fed remain dominated by perpetual U.S. economic non-recovery and a renewed, intensifying downturn. Even if the Fed should raises rates next week, or otherwise in the near future, ongoing negative economic pressures still will mount, forcing the U.S. central bank back into a position of having to support domestic financial- and banking-system liquidity needs. Effectively, the Fed will have no way out other than eventually to return to some form of expanded quantitative easing.

Temporary jawboning aside, market reactions into 2017 increasingly should reflect a renewed sense of Federal Reserve impotence, with bleak longer-term implications for the U.S. dollar. Irrespective of any near-term, one-shot rate hike, renewed quantitative easing increasingly should become the target of post-election speculation, as the deepening recession continues to unfold.

Rapidly weakening, regular monthly economic reporting should continue and result in much worse-than-expected—increasingly negative—reporting, beginning with fourth-quarter 2016 and for at least the next several quarters of GDP (and GDI and GNP). Although such was far from being in place with the headline, second-estimate of third-quarter 2016, quarterly economic contractions remain fair bets in fourth-quarter 2016 and first-quarter 2017.

CPI-U consumer inflation—intermittently driven lower in 2015 and early-2016 by collapsing prices for gasoline and other oil-price related commodities—has seen its near-term, year-to-year low and likely is pushing on to a two-year high. Headline monthly March to June 2016 detail moved into positive headline territory, in tandem with rising gasoline prices. CPI inflation was "unchanged"—minimally negative—with a switch to positive seasonal adjustments for gasoline prices only partially offsetting the unadjusted monthly drop in gasoline prices in July. August CPI was boosted by "core" inflation, while the September and October CPIs were spiked by gasoline prices and positive seasonal adjustments, while the November CPI also should be boosted by seasonals, despite a monthly decline in gasoline prices. Going forward, a weakening U.S. dollar increasingly should boost inflation, with a related and continued upturn in oil prices, gasoline and other commodities. The *Public Commentary on Inflation Measurement* reviews fundamental reporting issues with the headline CPI.

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 inflation and to overstate economic activity—as generally viewed in common experience by Main Street, U.S.A.—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, with the use of concurrent seasonal adjustments (as seen with retail sales, durable goods orders, employment and unemployment data). That issue is 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. That construction-spending issue now appears to have been structured as a gimmick to help boost the recently-published 2016 GDP benchmark revisions, aimed at smoothing the headline reporting of the GDP business cycle, instead of detailing the business cycle and reflecting broad economic trends accurately, as discussed in *Commentary No. 823*.

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,* and as updated on October 24th: *Crudele*. Mr. Crudele's latest investigation focuses on retail sales reporting: *John Crudele on Retail Sales*.

PENDING RELEASES:

Nominal and Real Retail Sales (November 2016). The Census Bureau will release November 2016 nominal (not-adjusted-for-inflation) Retail Sales on Wednesday, December 14th, which will be covered in *Commentary No. 854* of that date. Detail on real (adjusted-for-inflation) Retail Sales will be covered in *Commentary No. 855* of December 16th, coincident with the release by the Bureau of Labor Statistics (BLS) of the November 2016 Consumer Price Index (CPI-U), as discussed below.

With another likely increase in the monthly and annual CPI-U, there is a parallel chance for real sales growth in November to be more-negative or weaker than the headline nominal sales activity, with a deepening recession signal in the historically low-level, annual real Retail Sales growth.

Market "expectations" for headline nominal November Retail Sales—the first of the industry's two dominant holiday-season sales months—generally tend to be overly optimistic. Underlying reality should be reasonably bleak, other than for gimmicks such as those used to boost the headline October growth. Despite the nearly-perpetual happy, consensus outlook, an outright nominal monthly sales contraction in November 2016 and downside revisions to October and September activity are within the scope of underlying reality. Published following the October sales report, *John Crudele on Retail Sales* discussed some of the regular reporting issues with this series.

Discussed in the *Consumer Liquidity* update of *Commentary No. 851*, 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 liquidity-strapped U.S. consumer is unable to sustain growth in broad economic activity, including personal-consumption expenditures and retail sales. 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.

Index of Industrial Production (November 2016). The Federal Reserve Board will publish its estimate of November 2016 Industrial Production activity on Wednesday, December 14th, with coverage in *Commentary No. 854* of that date. Headline November reporting likely will come in on the downside of flat, following a minimal monthly gain (0.04%, which rounded to "unchanged") in October, along with continued and uninterrupted annual contractions (the 15th straight month). While consensus expectations may end up on the plus-side of flat, a headline monthly production drop remains likely, reflecting weaker manufacturing. That also should be in the context of downside revisions within the last six months of data.

Producer Price Index—PPI (November 2016). The Bureau of Labor Statistics (BLS) will release the November 2016 PPI also on Wednesday, December 14th, with detail covered in *Commentary No. 854* of that date. Odds favor a minimal headline gain in wholesale inflation, at least on the goods side of the reporting, due largely to the effect of positive seasonal-factor adjustments supporting declining, unadjusted prices of petroleum products.

Unadjusted oil prices declined in November 2016, as did gasoline prices. Based on the two most-widely-followed oil contracts, not-seasonally-adjusted, monthly-average oil prices declined by 8.6% (-8.6%) and 10.0% (-10.0%). That was accompanied by a 4.0% (-4.0%) decline in unadjusted, monthly-average wholesale gasoline prices (Department of Energy). Where PPI seasonal adjustments for energy costs in

November are positive, such should help push the adjusted Final Demand Goods component of the PPI to the plus side.

Energy- and other goods-related inflation will be supplemented or hit by counterintuitive "inflation" or "deflation" in the dominant services sector, from rising or falling "margins." Guesstimation in that services sector remains highly problematic. Counterintuitive pricing pressures from rising profit margins with the sharply falling oil prices, and vice versa, for example are discussed in *Inflation that Is More Theoretical than Real World?* in *Commentary No. 848*.

Consumer Price Index—CPI (November 2016). The Bureau of Labor Statistics (BLS) will release the November 2016 CPI on Thursday, December 15th, which will be covered in *Commentary No. 855* of that date. The headline November CPI-U is a good bet to a show continued month-to-month increase, perhaps up by 0.2%, in the context of declining gasoline prices more than offset by strongly-positive seasonal adjustments to same. Headline year-to-year annual inflation for November 2016 likely will increase to around 1.9%, versus 1.6% in October 2016.

Further Positive Monthly Inflation Impact from Seasonal Adjustments to Gasoline Prices. Average gasoline prices declined in November 2016 by 2.7% (-2.7%) for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). Where BLS seasonal adjustments to gasoline prices in November again are strongly on the plus-side, they should boost the unadjusted price gasoline prices, with seasonally-adjusted numbers contributing roughly a positive 0.07% to the headline monthly change in the CPI-U. Boosted further by higher food and "core" (net of food and energy) inflation, a headline monthly CPI-U reading of 0.2%, plus or minus, is a reasonable expectation.

***Annual Inflation Rate*.** Noted in *Commentary No. 849*, year-to-year, CPI-U inflation would increase or decrease in November 2016 reporting, dependent on the seasonally-adjusted month-to-month change, versus the negligible adjusted, headline gain of 0.01% in November 2015 CPI-U versus October 2015. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for November 2016, the difference in November's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the October 2016 annual inflation rate of 1.64%. Given an estimate of gain of a seasonally-adjusted 0.2% in the monthly November 2016 CPI-U, that would move the annual CPI-U inflation rate for November 2016 up to about 1.8% or 1.9%, plus-or-minus, depending on rounding. Such would be the strongest monthly year-to-year since July 2014, when the U.S. appeared to be behind initial efforts to collapse oil prices and to rally the dollar to create final stress for Russia during the Ukraine circumstance.

Residential Construction—Housing Starts (November 2016). The Census Bureau will release November 2016 residential construction detail, including Housing Starts, on Friday, December 16th, which will be covered in *Commentary No. 856* 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. That said, in the wake of a nonsensical 26% month-to-month surge in October starts, some downside revision and or corrective downside movements are likely in November, including consensus expectations of same.

Irrespective of the generally meaningless headline detail, the broad pattern of housing starts should remain consistent with the low-level, stagnant activity, still seen at present, with October 2016 activity down by 42% (-42%) from the pre-recession high of the series, despite the unusual monthly gain in October. The stagnation is particularly evident with the headline detail viewed in the context of a six-month moving average. Again, this series remains 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 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 the headline monthly growth rates rarely come close to being statistically significant.

Discussed in the *Consumer Liquidity* update of *Commentary No. 851*, 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 liquidity-strapped U.S. consumer remains unable to sustain growth in broad economic activity, including sustainable growth in demand for residential construction.

PENDING SHADOWSTATS *SPECIAL REPORT*. ShadowStats will update fully, into one, background piece—a comprehensive *Special Report (Commentary)*—encompassing the latest broad outlook for the U.S. and global economies, financial markets and systems, and inflation (U.S. hyperinflation). Encompassing a review of 2016 and an outlook for 2017, this massive missive now is planned for the last week of December, a period in which no major economic releases are scheduled.

Subsequently, various background articles available on the www.ShadowStats.com site also will be updated, early in 2017.

Initially planned for November 30th this *Special Report* was delayed due to illness, a seasonal malady that finally appears about to have run its course. I apologize to subscribers for the unexpected delay.

The *Special Commentary* will include the latest outlook and will incorporate fully revised materials from the *2014 Hyperinflation Report—The End Game Begins*, *2014 Hyperinflation Report—Great Economic Tumble*, *No. 777 Year-End Special Commentary* and other intervening missives, including the most-recent *Hyperinflation Outlook Summary* as found in *Commentary No. 783*. It will include updated, consistent GAAP-based financial detail on the U.S. government's financial condition through September 30, 2015 and initial prospects for the fiscal year ended September 30, 2016.

The *Special Commentary* also will include a section with links to books and articles that we and/or our readers have found of particular interest and substance. Many thanks to those who already have submitted recommendations of specific books and publications. Anyone with materials they would like to have considered for inclusion should send details in an e-mail to johnwilliams@shadowstats.com or call John Williams directly at (707) 763-5786.

