

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

**COMMENTARY NUMBER 855**

**November CPI, Real Retail Sales and Earnings, FOMC and the U.S. Dollar and Gold**

**December 15, 2016**

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**November 2016 Annual Inflation Firmed by Another 0.1%, with  
CPI-U at 1.7%, CPI-W at 1.5% and ShadowStats at 9.4%**

**November Inflation-Adjusted Retail Sales Fell by 0.12% (-0.12%) in the Month,  
Year-to-Year Growth of 2.02% Generated an Intense Recession Signal**

**Real Earnings Fell for Fourth Straight Month in November,  
On Track for a Fourth-Quarter Contraction**

**FOMC Rate Hike and Prospective Further Rate Increases  
Face Massive Hurdles from Intensifying Economic Weakness that  
Will Stress Systemic Liquidity and Solvency**

**U.S. Dollar Is Particularly Vulnerable Now to Unexpected Economic Deterioration**

**Market Upheaval and Dollar Doom Remain Likely in 2017  
Due to a Still-Dysfunctional and Deceptive Federal Reserve**

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*PLEASE NOTE: The next regular Commentary, scheduled for tomorrow, Friday, December 16th, will cover November Residential Construction, specifically Housing Starts, with an updated economic review.*

*Best wishes to all — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Equity Boom, Dollar Boom and Gold and Silver Selling: Tied Together and Not Sustainable.** Since Donald J. Trump won the presidential election, stocks have soared, as has the exchange-rate value of the U.S. dollar. There also have been accompanying, heavy selling pressures against the precious metals of gold and silver. Large price movements in those areas actually began before the polling booths opened on Election Day, when the broad consensus was that Trump would not win. Yet, consumer optimism indeed appears to have soared post-election, with perceptions of or hopes for positive, pending changes in the U.S. government and the economy.

In that environment, the Federal Reserve's Federal Open Market Committee (FOMC), taking advantage of euphoric markets, finally raised its targeted federal funds rate by a quarter-point, along with providing guidance for additional, regular rate hikes into 2017. In response, the dollar has exploded further to the upside, with continuing weakness in gold and silver and with many investors anxiously waiting for the Down Jones Industrial Average to break above 20,000.

Unfortunately, underlying economic fundamentals do not come close to supporting the stock-market and/or U.S. dollar manias, and that should become increasingly obvious by early in 2017. Where the FOMC acted to raise rates now, it was not due to a strong economy, despite official protestations to the contrary. That simply was hogwash hype from people who were good-enough economists, or who employed good-enough economists to know better. The problem has been and remains the systemic-liquidity crisis that fed into, and that continues to flow from, unresolved issues of the Panic of 2008. Those issues included the long-term sovereign-solvency problem of the United States, solvency problems within the domestic and global financial systems, and a collapsing U.S. economy. The Fed and accompanying U.S. administrations have found no way out of their quagmire, other than for emergency stopgap measures and a limited burst of quantitative easing that provided liquidity to the banking system and the U.S. Treasury.

Stopgap measures taken to save the financial system in 2008 bought some time but did little to address the underlying crises. Upfront, the U.S. economy collapsed from 2006/2007 into 2009, but it never recovered fully. There was some rebound that evolved into low-level, stagnating economic activity, activity that began to turn down anew at the end of 2014. Therein lies an immediate issue that could collapse the market manias. U.S. economic activity still is turning down. As the situation becomes increasingly obvious, expectations for further Fed tightening will shift towards expanded quantitative easing.

Shifting sentiments in that environment would hit both the U.S. dollar and equity markets hard. That circumstance also would shift sentiment increasingly towards seeking the wealth-preserving attributes of the precious metals. Such is explored further in today's *Hyperinflation Outlook* and will be expanded upon meaningfully in the pending year-end *Special Report*.

**Today's Commentary (December 15th).** These *Opening Comments and Executive Summary* cover summary detail of today's reporting of the November 2016 Consumer Price Index (CPI) and related Real Retail Sales and Earnings.

Expanded full coverage and graphs of the CPI and related series are found in the *Reporting Detail* section.

*Hyperinflation Watch* reviews possible and likely unfolding FOMC and economic and financial circumstances in year ahead.

The *Week, Month and Year Ahead* reviews recent *Commentaries* and updates the preview of the November Housing Starts, which will be reported tomorrow.

**Executive Summary: November 2016 Consumer Price Index (CPI)—Headline Inflation Notched Higher, Pushing Real Retail Sales and Earnings into Monthly Contractions.** Headline November 2016 CPI-U monthly inflation gained 0.20%, in line with consensus expectations. The monthly gain, however, all was in positive seasonal adjustments to the underlying detail. Unadjusted, headline CPI-U inflation contracted by 0.16% (-0.16%) for the month. In contrast, the adjusted October CPI-U had gained 0.36%, month-to-month, and was up by 0.12% unadjusted.

Although unadjusted headline annual CPI-U inflation rose to 1.69% in November 2016, versus 1.64% in October 2016, year-to-year inflation was not and has not been quite as low as indicated, when considered in the context of traditional CPI reporting and common experience. The ShadowStats-Alternate Inflation Measures showed annual inflation in November 2016 of 5.3%, based on 1990 methodologies, and 9.4%, based on 1980 methodologies (see discussion in the *Reporting Detail* section).

Separately, where the Consumer Price Index for All Urban Consumers (CPI-U) is the broadest headline consumer-inflation number, used to adjust numerous economic measures such as retail sales for inflation effects, the narrower Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is used for deflating measures such as earnings for production and nonsupervisory employees on private nonfarm payrolls.

November 2016 seasonally-adjusted CPI-W rose month-to-month by 0.21% [down by 0.22% (-0.22%), unadjusted], following a gain of 0.40% [up by 0.10% unadjusted] in October. Unadjusted, year-to-year change in the November 2016 CPI-W was a gain of 1.51%, up from a 1.45% gain in October 2016.

However measured, the upturn in November 2016 consumer inflation was enough to turn headline gains in monthly nominal retail sales and monthly nominal average weekly earnings into inflation-adjusted, or real, month-to-month contractions, circumstances commonly seen only during formal recessions.

***Inflation-Adjusted, Real Retail Sales—November 2016—Down by 0.12% (-0.12%) Month-to-Month, Up by 2.02% Year-to-Year, a Recession Signal.*** Discussed in yesterday's [Commentary No. 854](#), before inflation adjustment, November 2016 monthly retail sales rose by a minimal 0.08%, versus a downwardly-revised, but still heavily-bloated October gain of 0.62% and against a minimally-revised 1.00% in September. The November 2016 year-to-year nominal retail-sales gain rose to 3.75%, versus a downwardly-revised 4.18% in October 2016 and a minimally-revised 3.27% in September 2016.

Based on headline, seasonally-adjusted monthly CPI-U inflation, November 2016 inflation-adjusted real Retail Sales declined by 0.12% (-0.12%), following revised gains of 0.26% in October and 0.70% in September.

During normal economic times, annual real growth in Retail Sales at or below 2.0% signals an imminent recession. That signal has been in play since February 2015 (the “new” recession likely will be timed from December 2014, based on industrial production, retail sales and other indicators), suggesting a deepening, broad economic downturn. Year-to-year, November 2016 real retail sales increased by 2.02%, at the threshold of the recession signal.

***Real Retail Sales Graphs, Corrected and Otherwise.*** 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 year-to-year percent change. The apparent “recovery” of headline real retail sales shown in the following *Graph 1* (see also *Graph 10* in the *Reporting Detail*) generally continued into late-2014. Although headline reporting turned down in December 2014, into first-quarter 2015, it turned higher into the third-quarter 2015, slowed to a near-standstill in fourth-quarter 2015 and first-quarter 2016, with an uptick in second-quarter 2016, renewed slippage into third-quarter 2016, with further uptick and fallback in fourth-quarter 2016.

Nonetheless, headline real growth in retail sales continued to be overstated heavily, due to the understatement of CPI-U 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.

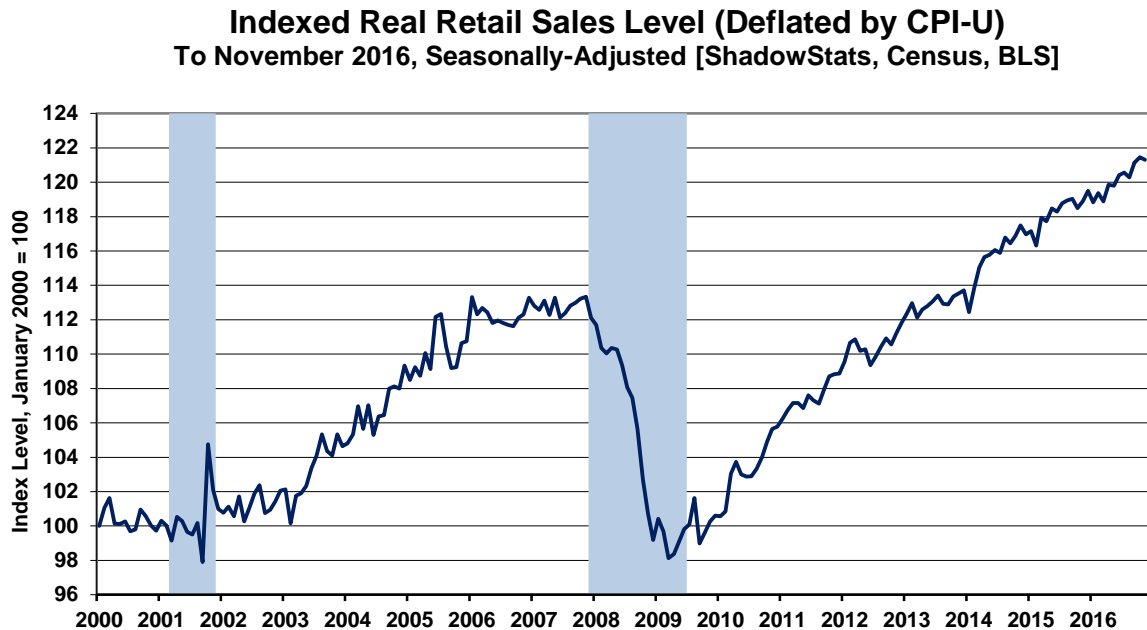
Both of the accompanying graphs are indexed to January 2000 = 100.0 to maintain consistency in the series of graphs related to corrected inflation-adjustment (including the regular plots of the “corrected” industrial production index (see yesterday’s [Commentary No. 854](#)), “corrected” new orders for durable goods ([Commentary No. 850](#)) and “corrected” GDP ([Commentary No. 851](#)).

The first graph here 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, again, as is evident in a comparison again of *Graph 1* with *Graph 10* in the *Reporting Detail* section.

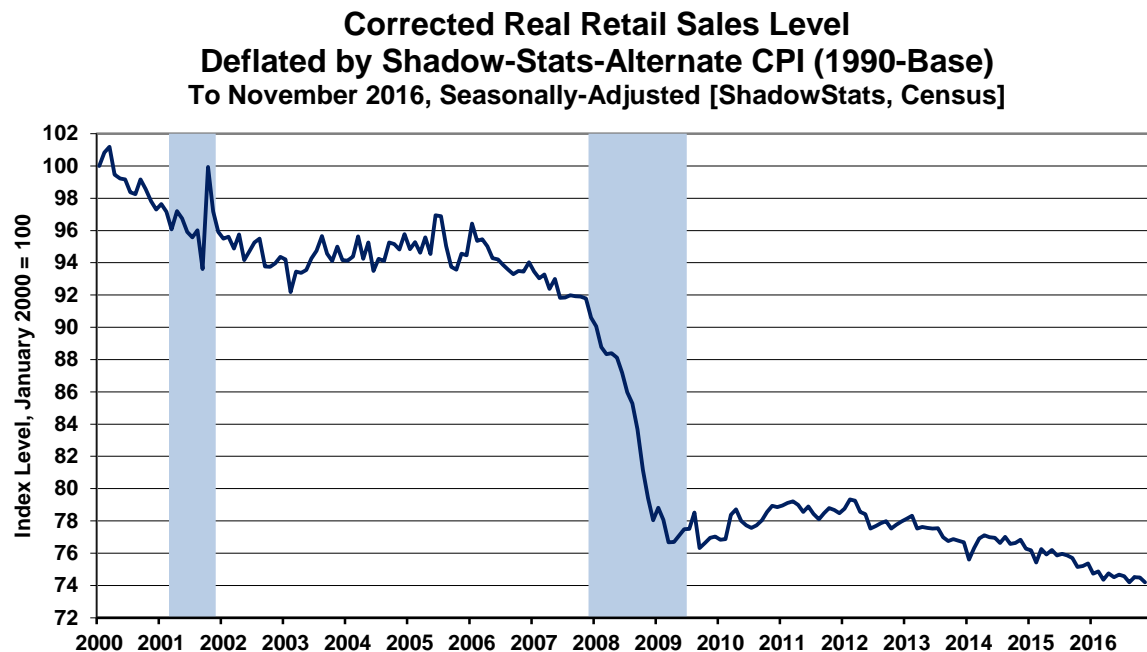
Instead of being deflated by the CPI-U, the “corrected” real retail sales numbers—in *Graph 2*—use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation. With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation and renewed downturn. That pattern generally is consistent with consumer indicators such as real average weekly earnings (see the next section), faltering consumer liquidity conditions (see yesterday’s [Commentary No. 854](#) and [Commentary No. 833](#)), the broad unemployment series (see [Commentary No. 852](#)) and most housing statistics such as the Housing Starts detail (see *Graph 7* of [Commentary No. 849](#)).

[Graphs 1 and 2 follow on the next page]

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



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



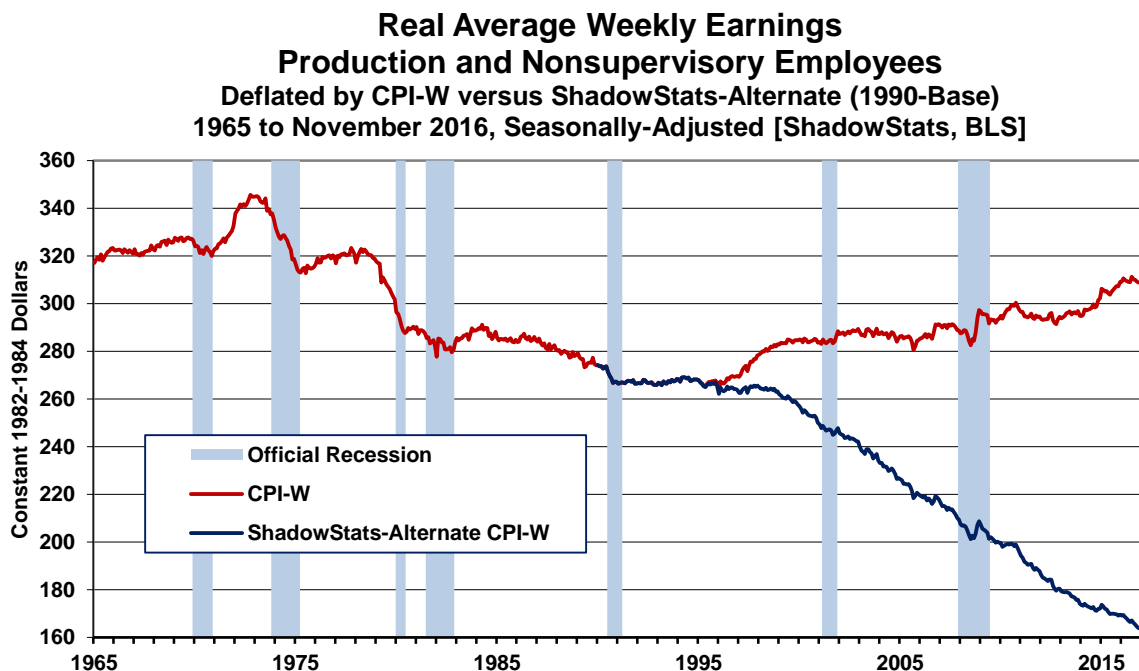
**Real Average Weekly Earnings—November 2016—Headed for a Fourth-Quarter Contraction.** In the production and nonsupervisory employees category—the only earnings series for which there is a meaningful history, real average weekly earnings in November 2016 fell by 0.11% (-0.11%) month-to-

month, following an unrevised drop of 0.22% (-0.22%) in October, a revised decline of 0.11% (-0.11%) in September and an unrevised monthly decline of 0.33% (-0.33%) in August. The November monthly decline was the fourth consecutive monthly decline, the seventh month-to-month hit to this series in the last eight months.

Those readings maintained an unrevised second-quarter 2016 annualized quarter-to-quarter contraction of 0.96% (-0.96%), with a downwardly-revised third-quarter 2016 annualized real growth pace of 1.62%, and an two-month trend estimate (based solely on October and November detail) of a fourth-quarter 2016 annualized real contraction of 1.82% (-1.82%).

On a seasonally-adjusted basis, year-to-year growth in earnings fell to a 30-month low of 0.54% in November 2016, which was down from a near-term peak of 3.87% in January 2015. The rally in real annual income, and renewed slowdown has been tied directly to the impact collapsing gasoline prices and rebound on inflation-adjusted income.

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



Graph 3 plots the seasonally-adjusted 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.



*[The Reporting Detail section contains extensive further analysis and graphs of the November 2016 CPI and Related Series.]*

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## HYPERINFLATION WATCH

**FOMC's Rate Hike and Promised Further Tightening Should Prove Unsustainable in Rapidly Deteriorating Economic Conditions.** The post-election rally in the U.S. dollar and sell-offs in precious metals have continued, exacerbated not only by the Fed's rate hike, but also by expressed plans for several further rate hikes into 2017 (see the *Opening Comments*).

Near-term economic weakness should squelch further, near-term rate hikes, much as happened with the future rate hikes anticipated in December 2015. As the deteriorating business conditions unfold, financial-system liquidity and solvency stresses will mount. That is a circumstance likely to draw the U.S. central bank back into some form of expanded quantitative easing.

***As Fiscal Stimulus Looms, the Trump Administration Needs to Develop a Credible, Long-Range U.S. Solvency Plan to Forestall the Ultimate Dollar Disaster.*** Discussed in [Commentary No. 851](#), a looming dollar crisis already is in play for the Trump Administration, both from the outgoing Administration and a still-troubled Federal Reserve. Chances of the FOMC following up with promised further rate hikes, subsequent to the current tightening, are about as good as they were following last year's rate hike: nil.

Despite expectations for better business conditions under a Trump Administration, market expectations for near-term (not long-term) business activity should falter, amidst ongoing and intensifying, negative near-term headline economic reporting that will continue to play out for the next twelve months or so. Such has been seen in the current week and should be seen increasingly in the weeks ahead,

In the Federal Reserve's arena, irrespective of the December 14th rate hike, 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 expanded program of quantitative easing. Such would generate high risk of extreme flight from the U.S. dollar—a massive dollar debasement—threatening an increasingly-rapid upturn in energy and dollar-based commodity inflation, driving headline U.S. inflation much higher.

On the side of the incoming Administration, new fiscal stimulus under consideration 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. As the federal deficit expands, global financial market concerns should begin to refocus on the long-term sovereign-solvency risks of the United States.

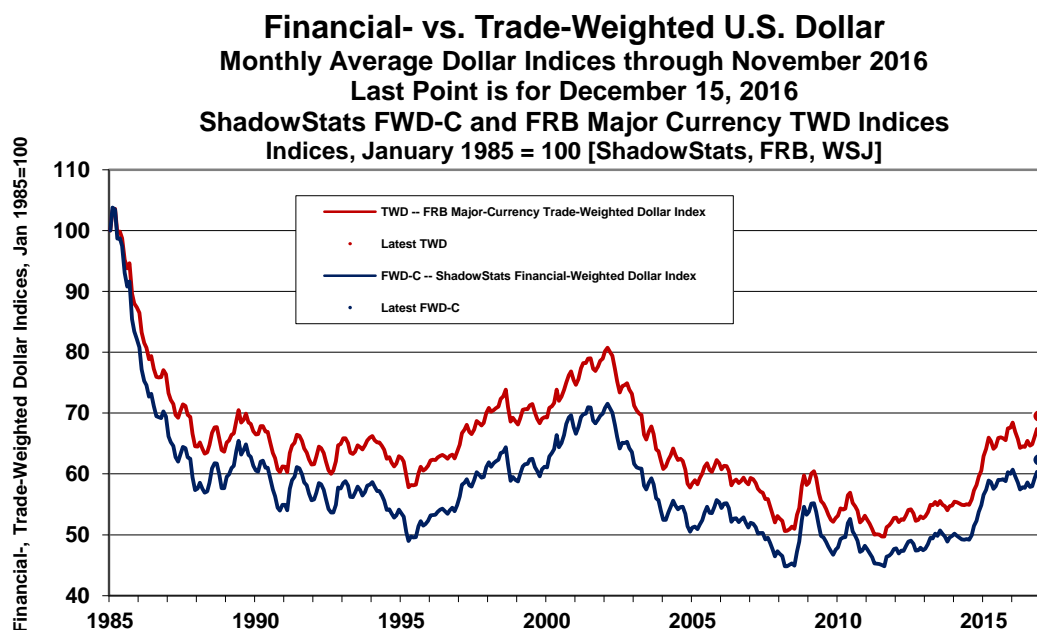
Those combined circumstances reflect unusual crosscurrents in the markets, which, when combined with a still-impotent Fed and re-intensifying banking and fiscal crises, foreshadow severe U.S. dollar and financial-system crises in 2017. The Trump Administration also will have a difficult time working with or around the Federal Reserve's self-created quagmire of continuing domestic and global banking-system illiquidity issues.

Compounding the high-risk of a near-term run on the U.S. dollar remains mounting recognition in global markets that the U.S. Federal Reserve and other central banks still have no effective idea as to how to boost current economic activity, how to stabilize the global banking-system solvency, or otherwise how to slog their way out of a self-generated quagmire.

***Dollar Boom and Selling of Precious Metals Continue.*** Noted in the opening paragraphs of the *Opening Comments*, the post-election surge in the U.S. dollar is not sustainable. When it breaks, the downside adjustment likely will be rapid, along with a likely reversal in the precious metals, with domestic and foreign flight capital seeking safety in holdings of physical gold and silver.

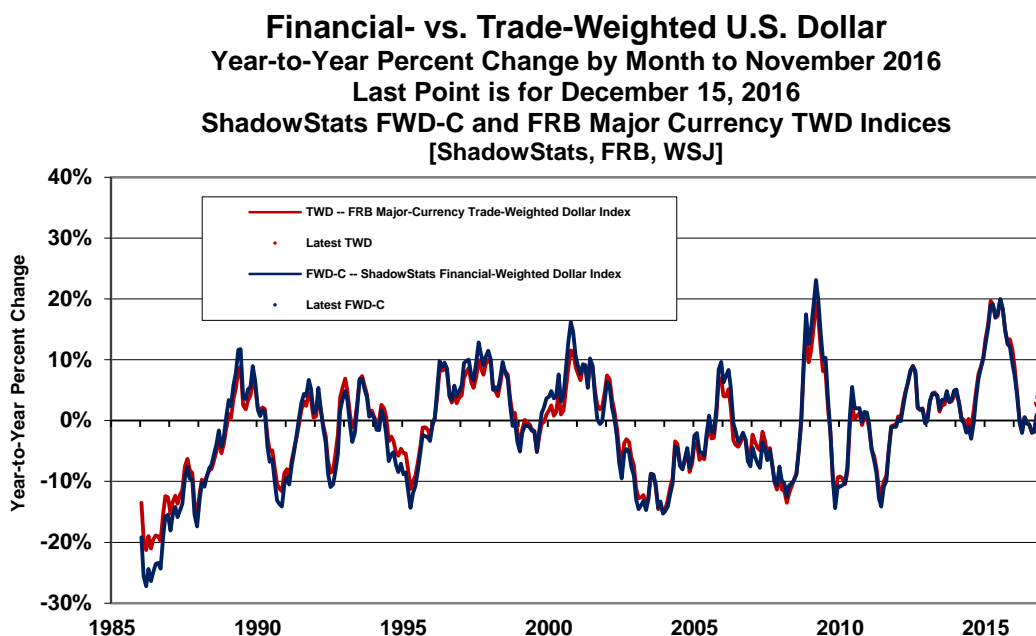
In perspective, the accompanying monthly-average plots through November cover the U.S. Dollar (*Graphs 4 and 5*), along with gold (*Graphs 6, 7 and 8*), where the December points on the graphs reflect late-day New York prices for Thursday, December 15th.

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





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



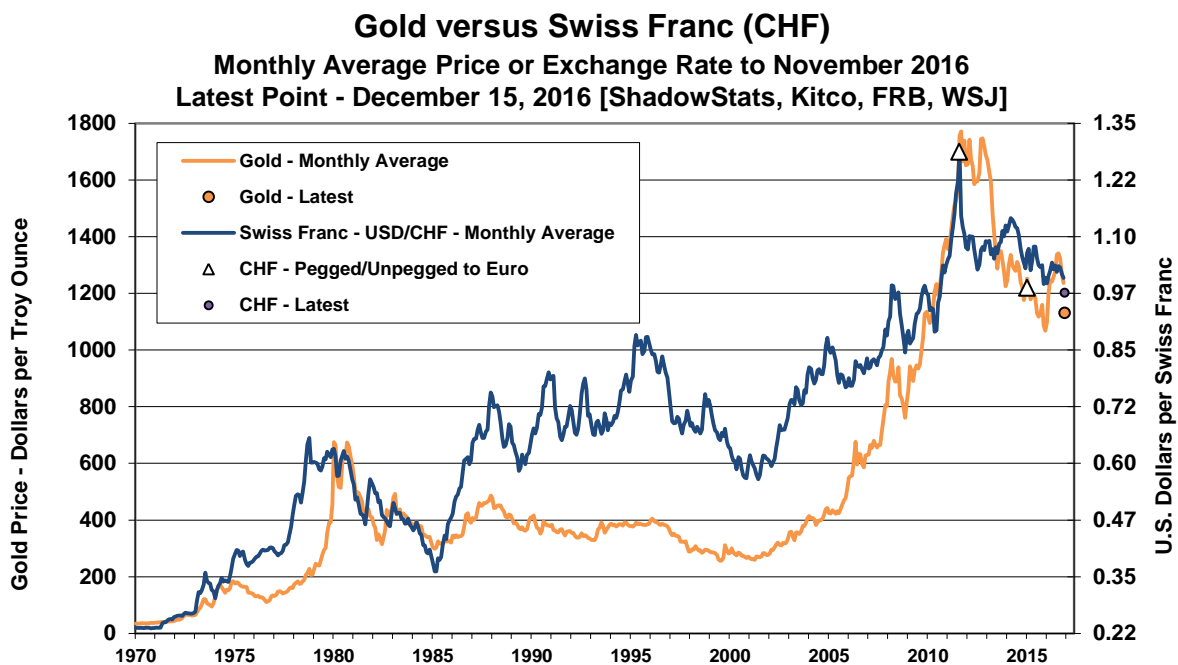
***A Likely Trigger for U.S. Dollar Selling.*** Watch out for a rapidly-unfolding downturn in broad U.S. economic indicators. Again, that should move the markets towards considering the dollar-debasement threat of re-expanded quantitative easing by the Federal Reserve. That would not be due to the Fed actually trying to stimulate the economy, only to the Fed using the political cover of a weak economy to justify, again, expansive quantitative easing, which in turn would be used to alleviate financial-system liquidity stresses.

The tremendous near-term threat to the U.S. dollar and systemic liquidity and stability continues, tied to the Fed's inability to resolve fundamentally the 2008 financial collapse, other than having bought limited additional time with its emergency stopgap measures to resolve that crisis. Since then, the domestic- and global-banking systems have not been stabilized in a healthy or sustainable manner.

Where perceptions may be of a recovering U.S. system with rising interest rates, funds indeed can flow into the dollar. Yet, that circumstance is not sustainable. Market sentiments can switch rapidly, with dollar buying shifting to dollar selling.

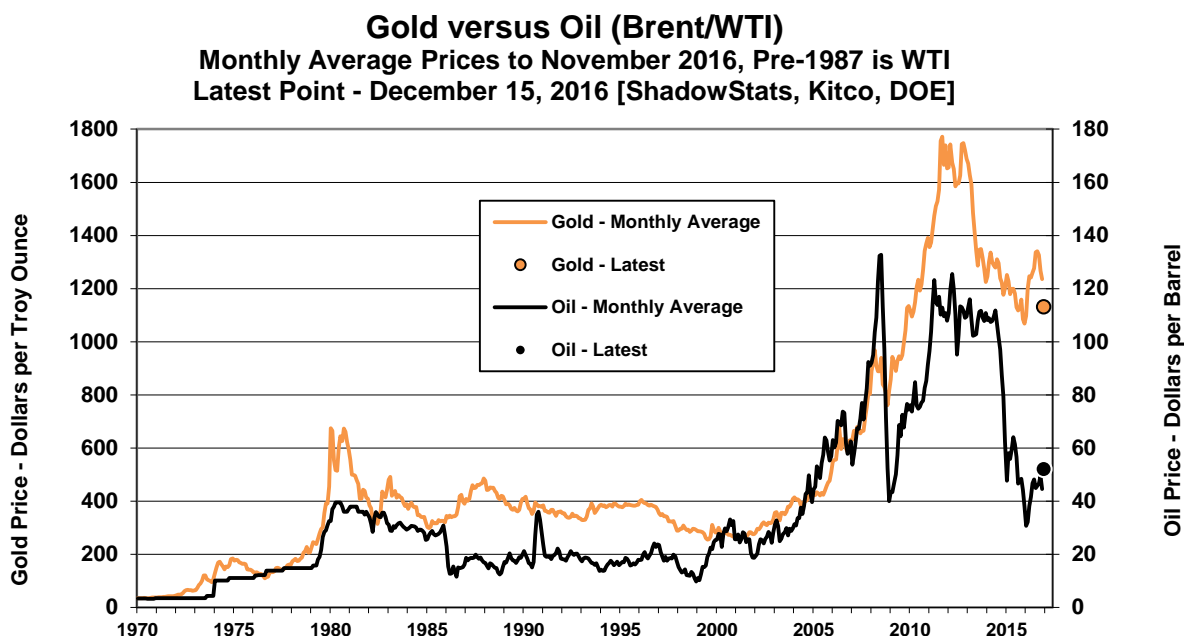
[Graphs 6 to 8 begin on the next page.]

**Graph 6: Gold versus the Swiss Franc**



**Graph 7: Gold versus Silver**



**Graph 8: Gold versus Oil**

## REPORTING DETAIL

### CONSUMER PRICE INDEX—CPI (November 2016)

**Headline CPI-U Inflation Notched Higher.** The headline November 2016 CPI-U monthly inflation of 0.2% [up by 0.20% at the second decimal point] was as expected by the consensus. Heavy, positive seasonal adjustments across the major sub-categories generated the headline, positive monthly CPI gain. Unadjusted, headline inflation contracted by 0.2% (-0.2%) [down by 0.16% (-0.16%) at the second decimal point].

Separately, although headline annual CPI-U inflation rose to 1.7% in November, versus 1.6% in October, year-to-year inflation is not and has not been quite as low as indicated, when considered in the context of traditional CPI reporting and common experience. The ShadowStats-Alternate Inflation Measures

showed annual inflation in November 2016 of 5.3%, based on 1990 methodologies, and 9.4%, based on 1980 methodologies.

**Longer-Range Inflation Outlook.** Despite the continuing strong U.S. dollar rally subsequent to the election and the Fed's rate hike, a tremendous threat to the dollar and systemic liquidity and stability continues, tied to the U.S. Federal Reserve's inability to resolve fundamentally the 2008 financial collapse, other than having bought limited additional time with its emergency stopgap measures. Since the 2008 crisis, domestic- and global-banking systems have not been stabilized in a healthy or sustainable manner. Efforts to stimulate a non-recovering U.S. economy, amidst renewed faltering activity, have been nil, up through the advent of the Trump era. Given standard lead times, positive impact from a likely post-inauguration 2017 stimulus packages would not have significant effect until early-2018, at the earliest, a time lapse fraught with potential disaster created by an incapacitated Fed, fighting to the death a battle it already lost in the 2008 panic, as reviewed in today's *Hyperinflation Watch*.

Irrespective of the December 14th FOMC rate hike, an expanded program of quantitative easing by the Fed likely will follow in first-half 2017, in response to mounting, systemic-liquidity issues created by the increasingly-negative domestic economic pressures. Such would generate high risk of extreme flight from the U.S. dollar—a massive dollar debasement—threatening an increasingly-rapid upturn in energy and dollar-based commodity inflation, driving headline U.S. inflation much higher.

Compounding the high-risk of a near-term run on the U.S. dollar remains mounting recognition in global markets that the U.S. Federal Reserve and other central banks have no effective idea as to how to boost current economic activity, how to stabilize the global banking-system solvency, or otherwise how to slog their way out of a self-generated quagmire.

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

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

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

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

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

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

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**CPI-U.** The Bureau of Labor Statistics reported this morning, December 15th that the headline, seasonally-adjusted November 2016 CPI-U rose by 0.2% month-to-month, up by 0.20% at the second decimal point. That followed a headline gain of 0.4% month-to-month, up by 0.36% at the second decimal point in October and a gain of 0.3% month-to-month, up by 0.29% at the second decimal point in September.

The adjusted headline November 2016 inflation increase was boosted across-the-board by positive seasonal adjustments to the energy, food and “core” (ex-food and energy) sectors. On an unadjusted basis, monthly November 2016 CPI-U declined by 0.15% (-0.15%), having increased by 0.12% in October and by 0.24% in September.

November 2016 seasonal adjustments for monthly gasoline inflation were positive, “boosting” an unadjusted headline monthly contraction of 2.45% (-2.45%) in gasoline prices into an adjusted gain of 2.66%. The Department of Energy (DOE) had estimated an unadjusted monthly decline in gasoline prices of 2.71% (-2.71%).

Major CPI-U Groups. Encompassed by the seasonally-adjusted monthly CPI-U gain of 0.20% in November 2016 [down by an unadjusted 0.16% (-0.16%)], November food inflation declined by a seasonally-adjusted 0.04% (-0.04%) [down by 0.26% (0.26%) unadjusted], November energy inflation rose by a seasonally-adjusted 1.19% [down by an unadjusted 1.74% (-1.74%)], while the adjusted October “core” (ex-food and energy) inflation rate was up by 0.15% [unchanged at 0.00% unadjusted]. Separately, core CPI-U inflation showed unadjusted year-to-year inflation of 2.11% in November 2015, versus 2.14% in October 2016 and versus 2.21%.

Year-to-Year CPI-U. Not seasonally adjusted, November 2016 year-to-year inflation for the CPI-U rose to 1.7% (1.69% at the second decimal point), versus 1.6% (1.64% at the second decimal point) in October 2016 and 1.5% (1.46% at the second decimal point) in September 2016.

Year-to-year, CPI-U inflation would increase or decrease in next month’s December 2016 reporting, dependent on the seasonally-adjusted month-to-month change, versus the adjusted, headline decline of 0.11% (-0.11%) in December 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 December 2016, the difference in December’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the November 2016 annual inflation rate of 1.69%. Given an early guess of another seasonally-adjusted gain of 0.2%, in the monthly December 2016 CPI-U, that would move the annual CPI-U inflation rate for December 2016 up to about 2.0%, plus-or-minus, depending on rounding.

**CPI-W.** The November 2016 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose month-to-month by 0.21%, following gains of 0.40% in October and 0.34% in September. On an unadjusted basis, the monthly CPI-W declined by 0.22% (-0.22%), having gained by 0.10% in October and 0.25% in September.

Year-to-Year CPI-W. Unadjusted, year-to-year change in November 2016 CPI-W was a gain of 1.51%, up from 1.45% in October 2016 and 1.22% in September 2016.

**Chained-CPI-U.** The headline C-CPI-U is not seasonally adjusted. Headline November 2016 C-CPI-U annual inflation came in at 1.54%, versus 1.48% in October 2016 and 1.27% in September 2016.

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 have been 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](#).

**Caution: Artificially-low inflation numbers estimated by the U.S. Government and used in fields ranging from Social Security COLAs (see the 2017 CPI-W estimate discussion in [Commentary No. 841](#)) to determining income-tax brackets, have been redesigned in recent decades specifically to help reduce the federal deficit. They are harmfully misleading to anyone using a government CPI estimate as a meaningful cost-of-living measure for guidance on income or investment purposes.**

**Alternate Consumer Inflation Measures.** The ShadowStats-Alternate Consumer Inflation Measures are constructed on top of the unadjusted CPI-U series. Adjusted to 1990 methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—year-to-year annual inflation was roughly 5.3% in November 2016, versus 5.2% in October 2016 and 5.0% in September 2016.

The November 2016 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 9.4% (9.40% at the second decimal point) year-to-year, versus 9.3% (9.34%) in October 2016 and 9.1% (9.15%) in September 2016.

*Note: The ShadowStats-Alternate Consumer Inflation Measures largely have been reverse-engineered from BLS estimates of the anticipated impact on annual CPI inflation from various changes made to CPI reporting methodology since the early 1980s, as also incorporated in the 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.*

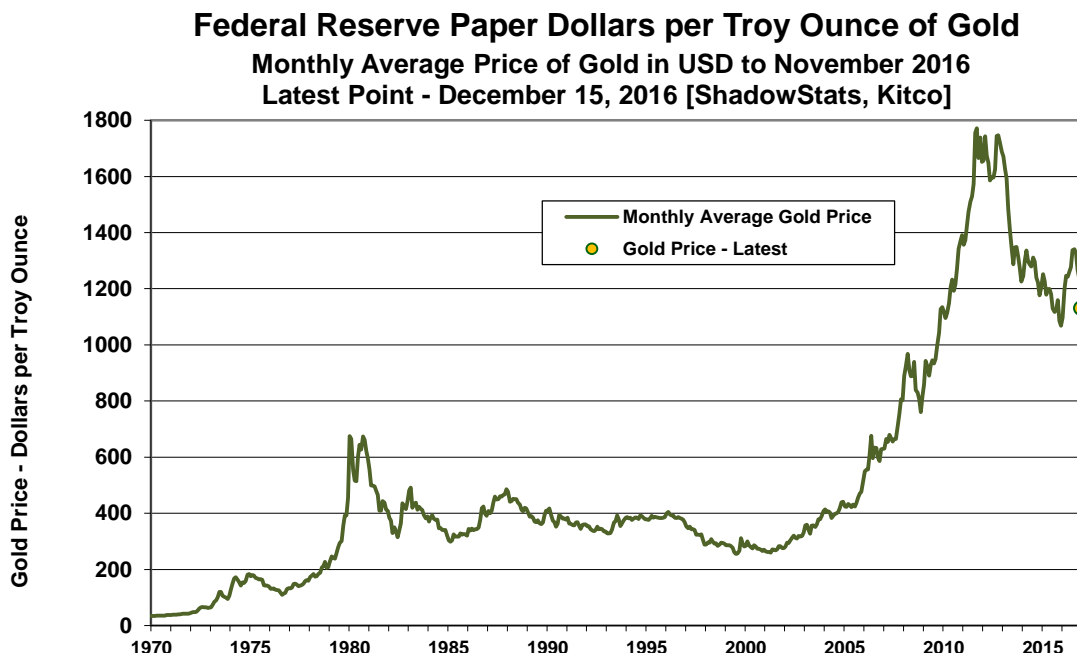
*The ShadowStats estimates are adjusted on an additive basis for the cumulative impact on the annual inflation rate from the various BLS changes in methodology (reversing the net aggregate inflation reductions by the BLS). The series are adjusted by ShadowStats for those aggregate changes, but the series 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 or shifting the nature of retail outlets to be changes in methodology. Yet those changes have had the effect of reducing headline inflation from what it would have been otherwise (See [Public Commentary on Inflation Measurement](#) for further details.)*

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



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

**CPI-U: GOLD at \$2,637 per Troy Ounce, SILVER at \$153 per Troy Ounce**

**ShadowStats: GOLD at \$13,359 per Troy Ounce, SILVER at \$777 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 \$2,637 per troy ounce, based on November 2016 CPI-U-adjusted dollars, and \$13,359 per troy ounce, based on November 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 November 2016 CPI-U inflation, the 1980 silver-price peak would be \$153 per troy ounce and would be \$777 per troy ounce in terms of

November 2016 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

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

***Real (Inflation-Adjusted) Retail Sales—November 2016—Down by 0.12% (-0.12%) Month-to-Month, Up by 2.02% Year-to-Year.*** Discussed in yesterday's [Commentary No. 854](#), nominal monthly retail sales in November 2016 rose by a minimal 0.08%, versus a downwardly-revised, but still heavily-bloated gain of 0.62% [previously up by 0.82%] in October and against a minimally-revised 1.00% [previously 0.96%] in September. The November 2016 year-to-year nominal retail-sales gain rose to 3.75%, versus a downwardly-revised 4.18% [previously 4.30%] in October 2016 and a minimally-revised 3.27% [previously 3.23%] in September 2016.

***Headline Real Detail.*** The preceding numbers were before any consideration for the effects of inflation. The initial monthly and annual inflation-adjusted real growth rates for November 2016 Retail Sales, and the trends for annualized quarterly real changes in retail sales follow, based on the accompanying detail of the headline November 2016 CPI-U.

Based on headline seasonally-adjusted monthly CPI-U gain of 0.20% in November 2016, and gains of 0.36% in October 2016 and 0.29% in September, November 2016 real Retail Sales declined by 0.12% (-0.12%), following revised gains of 0.26% [previously 0.47%] in October and 0.70% [previously 0.66%] in September.

**Intense Signal of Recession in Annual Real Growth Resumed.** During normal economic times, annual real growth in Retail Sales at or below 2.0% signals an imminent recession. That signal has been in play since February 2015 (the “new” recession likely will be timed from December 2014, based on industrial production, retail sales and other indicators), suggesting a deepening, broad economic downturn.

Year-to-year, November 2016 real retail sales increased by 2.02%, at the threshold of a recession signal. October 2016 real retail sales revised lower to 2.49% [previously 2.61%], but the headline nominal October detail still was so far removed from reality as to not be credible. September 2016 real retail sales growth revised minimally higher to 1.77% [previously 1.73%]. With annual real growth slowing to 1.47% in revised third-quarter 2016 reporting, versus an unrevised 1.56% in second-quarter 2016 and 1.62% in first-quarter 2016, the recession signal remained intense, consistent with an unfolding economic downturn. The revised, 2.02% [previously 2.26%] implied annual growth for fourth-quarter 2016, based on October and November reporting, still was bloated, but right on trigger for the recession signal. *Graphs 13 and 15*, following, show the latest patterns of headline annual real retail sales growth.

**Third-Quarter 2016 Annualized Real Growth Trend Slowed Sharply versus Second-Quarter 2016, with First-Quarter 2016 Still Flat.** Third-quarter 2016, annualized real quarterly Retail Sales growth still slowed sharply to a revised 2.17% [previously 2.12%] from an unrevised 3.37% annualized growth in second-quarter 2016. Such was against a revised estimate of annualized quarterly real growth of 0.20% [previously 0.10%]—effectively flat—in first-quarter 2016. Based only on the revised-October and

November headline detail, the trend for fourth-quarter 2016 annualized real growth was 2.12% [that had been 3.37% based the initial October reporting].

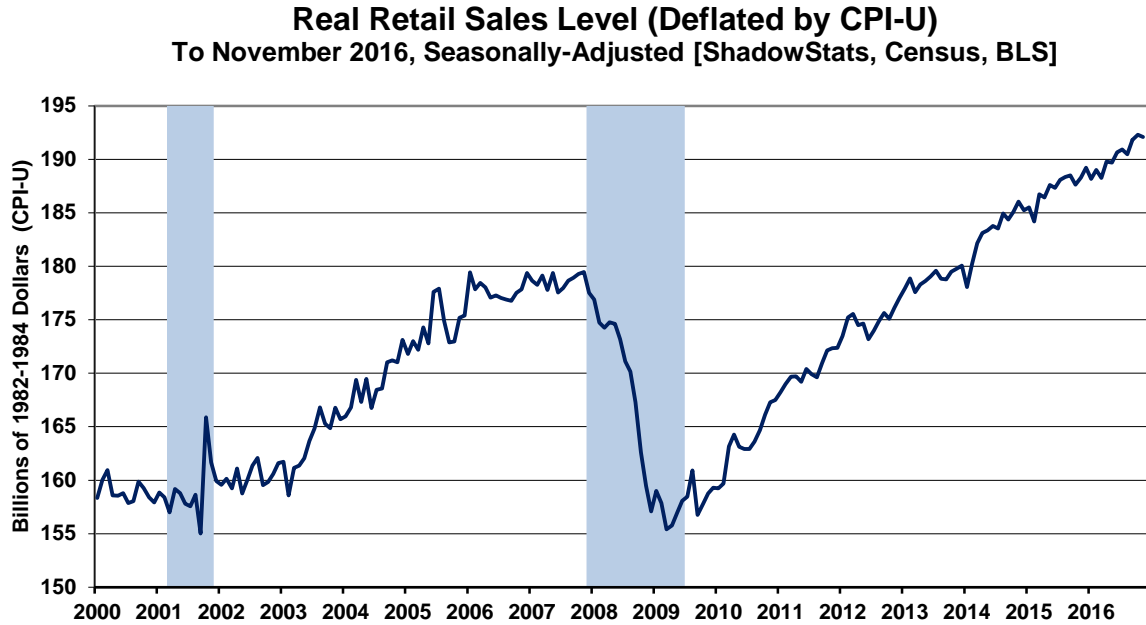
***Structural Liquidity Issues Continue to Impair Retail Sales.*** An extreme consumer-liquidity bind continues to constrain retail sales activity, as updated in [Commentary No. 854](#). Without sustainable growth in real income, and without the ability and/or willingness to take on meaningful new debt in order to make up for the income shortfall, the U.S. consumer remains unable to sustain positive growth in domestic personal consumption, including retail sales, real or otherwise. That circumstance—in the last nine-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad U.S. economic activity, 70% of which is dependent on personal spending.

As official consumer inflation continues its upside climb in the year ahead, and as overall retail sales generally continue to suffer from the ongoing consumer liquidity squeeze, these data should trend meaningfully lower, in what should gain recognition as a formal “new” recession.

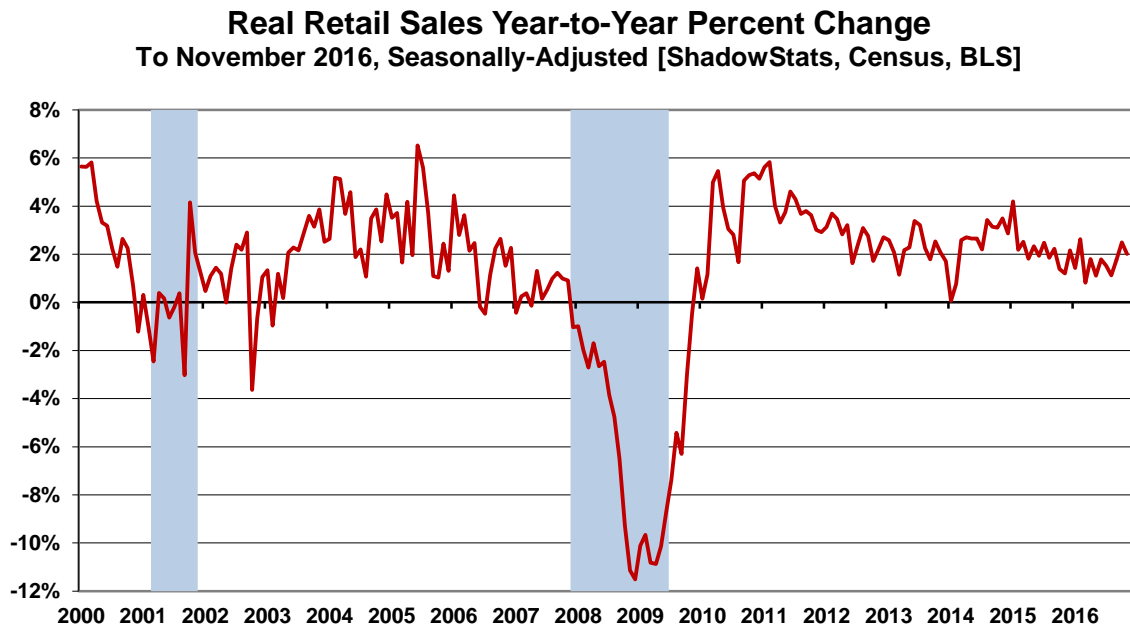
***Real Retail Sales Graphs.*** *Graph 10*, the first of the four graphs following, shows the level of real retail sales activity (deflated by the CPI-U) since 2000; *Graph 11* shows the year-to-year percent change for the same period. Annual real growth had slowed markedly into fourth-quarter 2015 and 2016, generating an intense 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.

[Graphs 10 to 13 begin on the next page.]

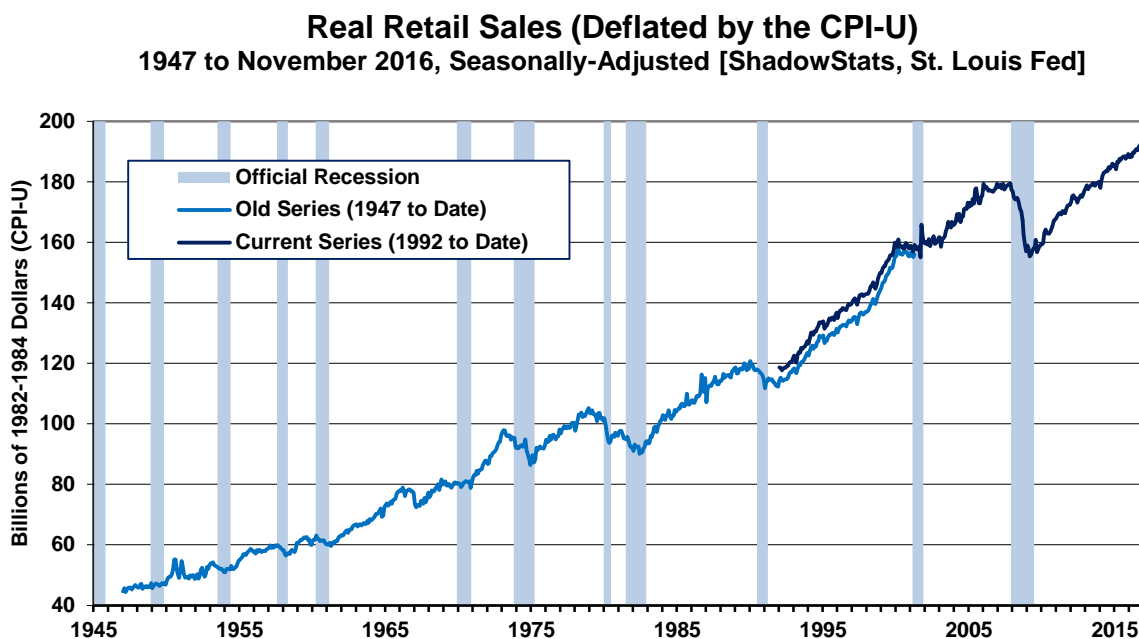
**Graph 10: Level of Real Retail Sales (2000 to 2016)**



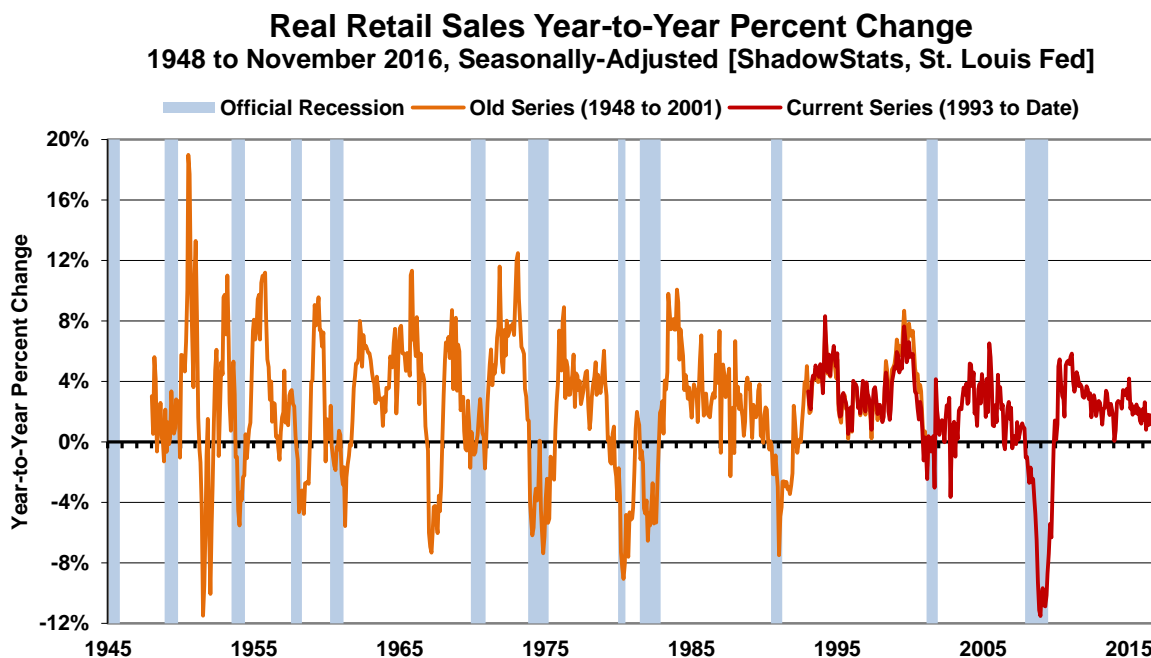
**Graph 11: Real Retail Sales (2000 to 2016), Year-to-Year Percent Change**



**Graph 12: Level of Real Retail Sales (1947 to 2016)**



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



The relative strength seen in the real retail series since the economic trough in 2009 largely has reflected the understatement of the rate of inflation used in deflating the 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.

***Real Average Weekly Earnings—November 2016—Real Earnings Fell for the Fourth Straight Month in the Context of Ongoing Unstable Reporting.*** The headline estimate for November 2016 real average weekly earnings was published coincident with today’s December 15th release of the November CPI-W. In the production and nonsupervisory employees category—the only series for which there is a meaningful history, real average weekly earnings in November 2016 fell by 0.11% (-0.11%) month-to-month, following an unrevised drop of 0.22% (-0.22%) in October, a revised decline of 0.11% (-0.11%) [previously down by 0.06% (-0.06%)] in September and an unrevised monthly decline of 0.33% (-0.33%) in August. The November monthly decline was the fourth consecutive monthly decline, the seventh month-to-month hit to this series in the last eight months.

Those readings maintained an unrevised second-quarter 2016 annualized quarter-to-quarter contraction of 0.96% (-0.96%), with a downwardly-revised third-quarter 2016 annualized real growth pace of 1.62% [previously up by 1.68%], and an two-month trend estimate (based solely on October and November detail) of a fourth-quarter 2016 annualized real contraction of 1.82% (-1.82%) [previous estimated at a decline of 1.48% (-1.48%), based just on initial October detail].

On a seasonally-adjusted basis, year-to-year growth in earnings fell to a 30-month low of 0.54% in November 2016, which was down from a near-term peak of 3.87% in January 2015. The rally in real annual income, and renewed slowdown has been tied directly to the impact collapsing gasoline prices and rebound on inflation-adjusted income.

While these usually heavily revised and seasonally-adjusted monthly changes are without much, if any, meaning in the near-term—effectively reporting garbage—over the longer term and quarterly, and particularly the benchmarked trends tend to be of some substance. As with the BLS reporting tied to the nonfarm payrolls, the headline seasonally-adjusted data here are not comparable due to reporting issues with concurrent seasonal factor adjustments (see *Headline Distortions from Shifting Concurrent-Seasonal Factors* in [Commentary No. 852](#)). The reporting in this series remains particularly unstable.

Separately, the CPI-W deflated reporting here also is distorted versus the CPI-U-deflated series, where the CPI-W—more heavily weighted with gasoline prices—tends to have much deeper, negative headline inflation, with resulting stronger headline, real growth than would be seen with the CPI-U, when gasoline prices are falling, and vice versa. Such was true again, albeit minimally so, in the November 2016 detail, where higher, seasonally-adjusted gasoline prices generated a headline monthly CPI-W gain of 0.21%, versus a CPI-U gain of 0.20%.

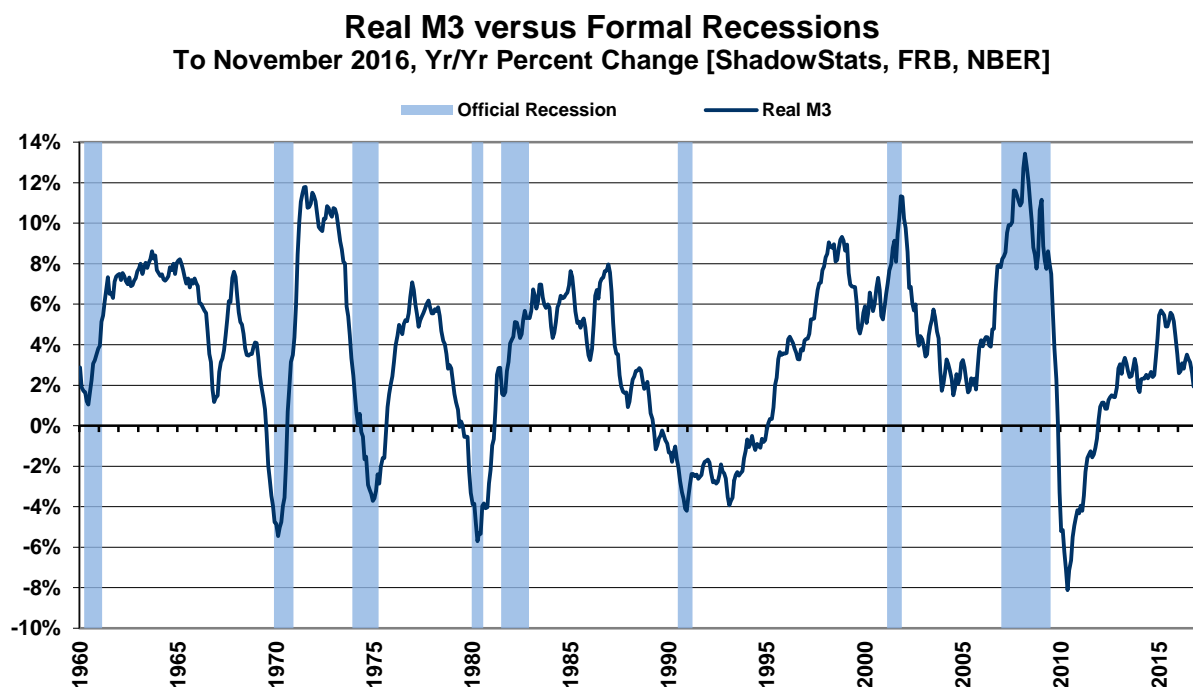
Found in the *Opening Comments* section, *Graph 3* plots this series, showing the seasonally-adjusted earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI



Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened headline 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—November 2016—Annual Growth Stalled at a Near-Term Trough.** 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, despite real annual M3 growth having rallied in positive territory for a number of years. Shown in *Graph 14*—based on November 2016 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate (including regular Federal Reserve Board money supply revisions)—annual inflation-adjusted growth in November 2016 M3 notched higher to 2.0%, versus 1.9% in October 2016, and against 2.6% in September 2016, 3.1% in August 2016, 3.3% in July 2016, 3.5% in June 2016, 3.2% in May 2016 and the prior near-term trough of 2.8% in April 2016. The 0.1% increase in the November’s monthly year-to-year change reflected an increase in annual M3 growth of 0.2% in offset by a 0.1% monthly increase in the level of annual, not-seasonally-adjusted CPI-U inflation (see [Commentary No. 852](#)).

**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. The ongoing issue here confounding the regular signal is that the U.S. economy never has recovered fully from its collapse into 2007. The initial economic downturn never evolved into a sustainable recovery.

Again, when real M3 growth breaks above zero, there is no signal; the signal is generated only when annual growth moves into negative territory, where it is heading at present. 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 *Graphs 2 and 3* in the *Opening Comments* 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 that likely will gain official recognition as a “new” recession, early in 2017. Underlying 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 “new” downturn remains nothing more than a continuation and re-intensification of the downturn that began unofficially in 2006 (see [Commentary No. 851](#)).

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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 the Ultimate Dollar Disaster.** *[Where some thoughts in this section are repetitive from the Hyperinflation Watch, this section provides links to related prior Commentaries].* Discussed in today’s *Opening Comments* and *Hyperinflation Watch* (also see [Commentary No. 851](#) and yesterday’s [Commentary No. 854](#)), a looming U.S. dollar crisis already is in play for the Trump Administration, from the outgoing Administration and from a still-befuddled Federal Reserve. Chances of the FOMC following up with promised further rate hikes, subsequent to the December 14th tightening, are about as good as they were after last year’s rate hike: nil.

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 ongoing and intensifying, negative near-term headline economic reporting, which should continue to play out at least into early 2018. Such reporting was seen in headline November industrial production and nominal retail sales ([Commentary No. 854](#)).

In the arena of the Federal Reserve, irrespective of the December 14th rate hike, the still-ongoing and deepening domestic economic downturn promises continued and intensifying stresses on systemic liquidity. That circumstance ultimately—sooner rather than later—dooms the U.S. central bank to an

intensified quantitative easing. That process would pummel the U.S. dollar, trigger much higher domestic inflation and fuel increased flight-to-safety in physical gold and silver.

On the side of the incoming Administration, new fiscal stimulus under consideration 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.

Those combined circumstances reflect unusual crosscurrents in the markets, which, when combined with a still-impotent Fed and re-intensifying banking and fiscal crises, foreshadow severe 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 liquidity issues. See the *Opening Comments* of [No. 851](#) and the *Hyperinflation Watch* in [Commentary No. 849](#).

**Recent Coverage of Economic Releases:** [Commentary No. 853](#) reviewed the catch-up and meaningful deterioration in the October trade deficit and related negative implications for fourth-quarter 2016 GDP. Also discussed was the background going into to the December FOMC meeting, the results of which again are discussed in the *Hyperinflation Watch* (see also [No. 854](#)).

[Commentary No. 852](#) assessed the November employment and unemployment headline details, which continued to reflect a number of reporting issues, far from the happy story promulgated 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 had been boosting headline GDP and retail sales reporting, might not have been quite as strong as advertised, as was confirmed in November Retail Sales reporting (again see [No. 854](#)).

[Commentary No. 848](#) covered October industrial production and the PPI, where industrial production reconfirmed 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 (see the *Hyperinflation Watch*). 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, later backed up with a hard rate hike on December 14th.

Again, though, the fundamental liquidity issues facing the Fed remain dominated by perpetual U.S. economic non-recovery and a renewed, intensifying downturn. Again, even with the Fed raising rates, ongoing negative economic pressures still will mount, forcing the U.S. central bank shortly 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 as intensifying economic weakness become increasingly obvious, with bleak longer-term implications for the U.S. dollar. Irrespective of the likely one-shot December 14th 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, September and October CPIs were spiked by gasoline prices and positive seasonal adjustments, while the November CPI was boosted by seasonal adjustments, despite a monthly decline in gasoline prices. Going forward, a weakening U.S. dollar (in a sharp downturn from current levels) 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 RELEASE: Updated - Residential Construction—Housing Starts (November 2016).** The Census Bureau will release November 2016 residential construction detail, including Housing Starts and Building Permits tomorrow, 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 the nonsensical 26% month-to-month surge in October starts, some downside revision and/or corrective downside movements are likely in November, and market expectations also are in that direction.

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, where October 2016 activity was down by 42% (-42%) from the pre-recession high of the series, despite the unusual monthly gain. That 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 yesterday’s [Commentary No. 854](#), 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](http://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 who would like to have materials considered for inclusion should send details in an e-mail to [johnwilliams@shadowstats.com](mailto:johnwilliams@shadowstats.com) or call John Williams directly at (707) 763-5786.

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