

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

COMMENTARY NUMBER 861
Nominal Retail Sales, Producer Price Index (PPI), GAAP-Deficit
January 13, 2017

**The 2016 Headline Cash-Based Federal Deficit was \$0.587 Trillion;
Using Generally Accepted Accounting Principles, the Deficit Was \$1.048 Trillion**

**Including the Net Present Value of Unfunded Liabilities, the
GAAP-Based Federal Deficit in 2016 Appears to Have
Widened by About \$7 Trillion versus 2015**

**Nominal December Retail Sales Gain of 0.6% Was Not Good News;
Incentive-Boosted Auto Sales Borrowed Activity from First-Quarter 2017;
Holiday Season Real Sales Growth Likely Did Not Break-Even**

**Annual December 2016 PPI Energy Inflation Rose Meaningfully for the
First Time Since the Collapsing Oil Prices of 2014**

**Monthly December PPI Inflation: Goods Up 0.74%,
Construction Down 0.09% (-0.09%), Services Up 0.09%, Total Up by 0.27%**

PLEASE NOTE: The next regular Commentary, scheduled for Wednesday, January 18th, will cover December 2016 Industrial Production and the Consumer Price Index, with the related real Retail Sales and earnings series. A Commentary, on January 19th will cover December 2016 Residential Investment, including Housing Starts and Building Permits.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

U.S. Treasury Publishes the 2016 U.S. Government Financial Statements. The U.S. Treasury released the [*Financial Report of the United States Government FY 2016*](#) yesterday afternoon, January 12th. Based on Generally Accepted Accounting Principles (GAAP), the headline deficit—excluding the changes in the net present value of unfunded liabilities—rose to \$1.048 trillion in the fiscal-year-ended September 30, 2016, versus \$0.514 trillion in the year-ended September 30, 2015 (widened by \$0.534 trillion). Those numbers are against the respective, heavily-touted headline cash deficits of \$0.587 trillion in 2016 and \$0.439 trillion in 2015 (widened by \$0.148 trillion).

The cash deficits purportedly reflect cash-flow, cash received versus cash paid out, although that has not been fully the case since the aftermath of the Panic of 2008. The GAAP-based numbers include accrual accounting and reflect a more-meaningful, consistent picture of a given year's financial operations.

Viewed in terms of including the deterioration in the net present value of unfunded liabilities in programs such as Social Security and Medicare, the 2016 deficit appears to have widened versus 2015 by roughly \$7 trillion, based on a cursory assessment of the newly available detail. Net present value reflects the net aggregate expenditures and revenues projected over time for the government's future obligations (a net deficit), with that cash-flow discounted for the time value of money, effectively the amount of money needed in hand today to cover those obligations in the future.

Briefly reviewed in *FEDERAL DEBT AND DEFICIT* ([No. 859 Special Commentary](#)) total obligations of the U.S. government, including the net present value of its unfunded liabilities, exceed \$100 trillion. That circumstance cannot be brought into balance in the normal course of government operations. In terms of maintaining sovereign solvency, implied here is either a restructuring of the government's obligations (a nearly-impossible political situation) or an eventual full debasement of the U.S. dollar.

Discussed in today's *Week, Month and Year Ahead* section, and previously in No. 859, a ShadowStats *Special Report* follows shortly. The report will attempt to place the current data in the context of consistent, prior reporting of recent years, along with a discussion on various ways of addressing the "net present value" concept.

For those interested in the government's financial reporting problems, the Independent Auditor's Report makes interesting reading (beginning on the printed page 237 [PDF page 245] of the *Financial Report*). Such highlights the inability—unwillingness—of the federal government to account for, let alone to manage properly, its own operations. Despite some improvement, the problems have stretched over decades in attempting to establish meaningful financial oversight of the government's operations.

Weakening Economy and Rising Inflation in Headline December 2016 Reporting. The headline December nominal retail sales gain was strong, but it foreshadowed much weaker automobile-sales activity in first-quarter 2017 and suggested that the retail sales industry's all-important Holiday Season

flubbed, with likely negative, inflation-adjusted real sales growth. On the inflation front, annual energy inflation resurfaced sharply, with the energy component of the December Producer Price Index (PPI) showing its first meaningful year-to-year gain since the 2014 collapse in oil prices.

Nominal Retail Sales—December 2016—Trouble for Broad Economic Activity. Although the headline 0.63% monthly gain in nominal retail sales was unusually-strong, the news was not the positive indicator for broad U.S. economic activity that likely will be the hyped in the popular press. December's gain reflected surging automobile sales, boosted sharply by year-end buying incentives. The effect of those incentives will be to borrow sales activity from first-quarter 2017. Correspondingly, the auto sales gain seen in December largely should be offset by weaker activity early in this New Year. Net of auto sales, December, the second month of the retail sales industry's all-important Holiday Season, showed a nominal retail sales gain of just 0.16% for the month. Those sales in December and in November most likely will be negative after inflation adjustment.

Producer Price Index (PPI)—December 2017—Energy Inflation Resurgent. Headline PPI goods inflation rose by 0.74% month-to-month in December 2016, up from a 0.36% gain in November. Unadjusted annual inflation there rose by 1.65% in December 2016, versus 1.28% in November 2016. While goods inflation was seen across the food, energy and “core” (everything but food and energy) sectors, surging oil prices dominated the detail. Such is the closest the Bureau of Labor (BLS) comes these days to reporting wholesale inflation as it did for the decades leading into a scrapping of the traditional system with changes in January 2014.

The year-to-year change in annual energy inflation soared to 5.89% in December 2016, up from a contraction of 0.11% (-0.11%) in November 2016. The December number reflected the first meaningful annual pickup in energy inflation since the 2014 collapse in oil prices.

With profit-margin gains in the dominant services area declining to 0.09% (due to rising gasoline prices) in December, from 0.54% in November, and with margin-distorted construction industry inflation declining in December by 0.9% (-0.9%), versus a 0.9% gain in November, the headline Final Demand Producer Price rose for the month of December by a relatively-temperid 0.27%, versus 0.37% in November.

This Final Demand headline inflation number for the aggregate PPI series simply has no relationship to real-world activity or to common experience, as discussed in the *Reporting Detail* section.

Today's Commentary (January 13th). These *Opening Comments and Executive Summary* cover summary detail of today's headline nominal Retail Sales and Producer Price Index (PPI). As usual, expanded coverage of those series is found in the *Reporting Detail* section.

The *Week, Month and Year Ahead* section previews next week's reporting of December Industrial Production, CPI and Housing Starts.

[The Reporting Detail contains significant analysis on the Retail Sales and PPI.]

REPORTING DETAIL

NOMINAL RETAIL SALES (December 2016)

Holiday-Season Shopping Flubbed in Real Terms. Net of surging auto sales, headline December retail sales rose for the month of December 2016 by 0.16%. That activity encompassed the sales activity of the second and most-significant month of the industry-dependent Holiday Season. Including related activity from November, that means that inflation-adjusted real Holiday Season sales most likely contracted, as should be confirmed in the reporting of the headline December 2016 CPI-U on January 18th (see the *Week Ahead*).

Although the aggregate headline 0.63% monthly gain in nominal retail sales was unusually strong, the news was not the positive indicator for broad U.S. economic activity that likely will be headlined in the popular press. December's gain reflected surging automobile sales, boosted sharply by year-end buying incentives. Those incentives will have borrowed sales activity from first-quarter 2017. Combined implications of distortedly-strong auto sales and the unhappy real sales volume for the Holiday Season should mean that headline, broad economic activity should be suffering in ensuing quarters.

Nominal (Not-Adjusted-for-Inflation) Retail Sales—December 2016. In the context of an upside revision to the previously-reported level of November activity, and a minimal upside revision to September, the Census Bureau reported today (January 13th) that headline nominal December 2016 Retail Sales rose by 0.63% month-to-month, versus an upwardly revised 0.18% [previously 0.08%] gain in November and an upwardly revised 0.66% [previously 0.62%, initially 0.82%] gain in October.

That seasonally-adjusted, headline December 2016 gain of 0.63% +/- 0.59% was statistically-significant (all confidence intervals are expressed at the 95% level). Net of prior-period revisions, December sales gained by 0.77%. The revised headline November 2016 monthly retail sales gain of 0.18% +/- 0.23%, however, remained statistically-insignificant. There were no obvious seasonal-factor distortions detectable in today's limited availability of just five months of consistently-reported detail.

Year-to-Year Annual Change. December 2016 nominal year-to-year change showed a statistically-significant increase of 4.13% +/- 0.82%, versus an upwardly revised 3.89% [previously 3.75%] in November and an upwardly-revised 4.22% [previously 4.18%, initially 4.30%] gain in October 2016.

December 2016 Core Retail Sales, Net of Food and Gasoline. Reflecting an environment that should be seeing rising, seasonally-adjusted food prices and gasoline prices [an unadjusted December gain of 2.3% per the Department of Energy], seasonally-adjusted grocery-store sales declined by 0.02% (-0.02%) month-to-month, with gasoline-station sales up by 1.99% in December 2016.

Under normal conditions, the bulk of non-seasonal variability in food and gasoline sales is in pricing, instead of demand. “Core” retail sales—consistent with the Federal Reserve’s historical preference for ignoring food and energy prices when “core” inflation is lower than full inflation (when the Fed is looking to downplay inflation)—are estimated using two approaches:

Version I: December 2016 versus November 2016 seasonally-adjusted retail sales series—net of total grocery store and gasoline-station sales—rose by 0.59%, versus the official headline aggregate sales gain of 0.63%.

Version II: December 2016 versus November 2016 seasonally-adjusted retail sales series—net of the monthly change in the level of revenues for grocery stores and gas stations—rose by 0.48%, versus the official headline aggregate sales gain of 0.63%.

Real Retail Sales (December 2016). Coincident with the January 18th release of the December CPI-U, headline nominal December Retail Sales will be adjusted for inflation and recast as real Retail Sales. Such will be covered in *Commentary No. 862* (see the *Week Ahead* section).

Where headline December CPI-U likely will show a moderate monthly increase, there is a parallel chance for the real change in December retail sales to weaken accordingly from today’s headline nominal monthly gain of 0.62%. The pace of annual CPI-U inflation also should increase sharply, enough to hold the headline nominal annual growth rate of 4.13% to the recession-signal-generating threshold of 2.0%.

Structural Liquidity Issues Continue to Impair Retail Sales. An extreme consumer-liquidity bind continues to constrain retail sales activity, as reviewed in the *CONSUMER LIQUIDITY* section of [No. 859 Special Commentary](#). 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 headline consumer inflation continues its upside climb in the year ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze, the real retail sales data generally should continue to trend meaningfully lower, in what eventually should gain recognition as a formal “new” recession.

PRODUCER PRICE INDEX (December 2016)

Headline December PPI Goods Inflation Rose by 0.74%; Construction Inflation Declined by 0.09% (-0.09%); Profit Margins in the Services Sector Rose by 0.09%; with Aggregate PPI Inflation Up by 0.27%. The headline month-to-month December 2016 PPI inflation of 0.3% (0.27% at the second decimal point) generally reflected neither real-world activity, nor common experience. As usual, monthly wholesale inflation was dominated by the services sector, which was dominated by surging prices for “securities brokerage, dealing, investment advice and related services,” as often is the case, with an

offsetting decline from rising energy prices, which provided a counterintuitive hit to “trade” inflation as measured by narrowing margins.

Year-to-Year Energy Inflation Turned Meaningfully to the Plus-Side. The jump in the old-fashioned goods inflation was across-the-board, but it was dominated by higher energy prices. Not-seasonally-adjusted annual change in energy inflation jumped meaningfully into positive territory for the first time since the 2014 collapse in oil prices. Energy inflation gained year-to-year by 5.89% in December 2016, following minor flutterings of an annual decline of 0.11% (-0.11%) in November 2016, a gain of 0.32% in October 2016, and against annual declines of 2.47% (-2.47%) in September 2016, 9.98% (-9.98%) in August 2016, and so on, back to fourth-quarter 2014.

Bulk of Reporting Is of Little Practical Use. Beyond the broad issues with general inflation measurement (see [Public Commentary on Inflation Measurement](#)), indeed the bulk of the PPI is covered by the “services” sector, where inflation is determined largely by shifting profit margins. Discussed in the next section, entitled *Inflation That Is More Theoretical than Real World*, profit-margin inflation estimates generally are handled in a manner counter-intuitive to the more-traditional measurement of inflation in goods and services, otherwise calculated as a measurement of change in prices. Accordingly, the headline detail here increasingly has a limited relationship to real-world activity.

The conceptual differences between goods inflation and services profit margins do not blend well and are not merged easily or meaningfully in the current version of the PPI. While, the dual measures are more meaningfully viewed independently than as the hybrid measure of the headline Producer Price Index Final Demand—ShadowStats separates the analyses of those sectors by sub-category—the aggregate headline series here also is reviewed and covered within the headline reporting conventions of the Bureau of Labor Statistics (BLS).

Inflation That Is More Theoretical than Real World? [This background text is as published previously.] Effective with January 2014 reporting, a new Producer Price Index (PPI) replaced what had been the traditional headline monthly measure of wholesale inflation in Finished Goods (see [Commentary No. 591](#)). In the new headline monthly measure of wholesale Final Demand, Final Demand Goods basically is the old Finished Goods series, albeit expanded.

The new otherwise dominant Final Demand Services sector largely reflects problematic and questionable surveying of intermediate or quasi-wholesale profit margins in the services area. To the extent that profit margins shrink in the services sector, one could argue that the resulting lowered estimation of inflation actually is a precursor to higher inflation, as firms subsequently would move to raise prices, in an effort to regain more-normal margins. In like manner, in the circumstance of “increased” margins—due to the lower cost of petroleum-related products not being passed along immediately to customers—competitive pressures to lower margins would tend to be reflected eventually in reduced retail prices (CPI). The oil-price versus margin gimmick works both way. In times of rapidly rising oil prices, it mutes the increase in Final Demand inflation, in times of rapidly declining oil prices; it tends to mute the decline in Final Demand inflation.

The current PPI series remains an interesting concept, but it appears limited as to its aggregate predictive ability versus general consumer inflation. Further, there is not enough history available on the new series (just seven years of post-2008-panic data) to establish any meaningful relationship to general inflation or other economic or financial series.

December 2016 Headline PPI Detail. The Bureau of Labor Statistics (BLS) reported this morning, January 13th, that the seasonally-adjusted, month-to-month, headline Producer Price Index (PPI) Final Demand inflation for December 2016 was 0.27%, against a gain of 0.36% in November and an unchanged 0.00% reading in October. On a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year PPI Final Demand inflation in December rose to 1.65%, from 1.28% in November 2016 and 0.82% in October 2016.

For the three major subcategories of December 2016 Final Demand PPI, headline monthly Goods inflation rose by 0.74%, Services “inflation” (profit margins) gained 0.09% and Construction inflation fell by 0.09% (-0.09%).

Final Demand Goods (Weighted at 33.63% of the Aggregate Index). Running somewhat in parallel with the old Finished Goods PPI series, headline month-to-month Final Demand Goods inflation in December 2016 rose by 0.74%, having gained 0.18% in November. There was positive impact on the aggregate goods headline reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, December Final Demand Goods inflation was 0.56%.

Unadjusted, year-to-year goods inflation in December 2016 showed an annual gain of 1.97%, following 0.56% in November 2016.

Headline seasonally-adjusted monthly changes by major components of the December 2016 Final Demand Goods:

- “Foods” inflation (weighted at 5.56% of the total index) rose month-to-month in December 2016 by 0.70%, having gained by 0.62% in November. Seasonal adjustments were positive for the December headline change, which was up by 0.62% unadjusted. Unadjusted and year-to-year, annual December 2016 foods inflation declined by 1.12% (-1.12%), having declined in November 2016 by 2.74% (-2.74%).
- “Energy” inflation (weighted at 5.24% of the total index) rose by 2.64% month-to-month in December 2016, having declined by 0.32% (-0.32%) in November. Seasonal adjustments here remained strongly positive, with unadjusted monthly energy inflation up by 1.74% in the month. Unadjusted and year-to-year, December 2016 energy prices soared by 5.89%, the first meaningful annual growth since the 2014 collapse in oil prices. Year-to-year change in November 2016 was a decline of 0.11% (-0.11%).
- “Less foods and energy” (“Core” goods) monthly inflation (weighted at 22.83% of the total index) rose by 0.27% in December 2016, having gained 0.18% in November 2016. Seasonal adjustments were positive for monthly core inflation, with an unadjusted monthly gain of 0.18%. Unadjusted and year-to-year, December 2016 was up by 1.73%, versus a gain of 1.55% in November 2016.

Final Demand Services (Weighted at 64.28% of the Aggregate Index). Headline monthly Final Demand Services inflation rose by 0.09% in December 2016, having gained 0.54% in November. The overall seasonal-adjustment impact on headline December services inflation was positive, with an unadjusted monthly contraction of 0.09% (-0.09%). Year-to-year, unadjusted December 2016 services rose by 1.55%, following an annual gain of 1.54% in November 2016.

The headline monthly changes by major component for December 2016 Final Demand Services inflation:

- “Services less trade, transportation and warehousing” inflation, or the “Other” category (weighted at 38.96% of the total index), gained 0.18% month-to-month in December 2016, having gained 0.09% in November. Seasonal-adjustment impact on the adjusted December detail was positive, where the unadjusted monthly reading was unchanged at 0.00%. Unadjusted and year-to-year, December 2016 “other” services inflation was 2.02%, versus 2.12% in November 2016.
- “Transportation and warehousing” inflation (weighted at 4.99% of the total index) declined month-to-month in December 2016 by 0.44% (-0.44%), having gained 0.09% in November. Seasonal adjustments were negative for the headline December reading, where the unadjusted monthly number showed a decline of 0.35% (-0.35%). Unadjusted and year-to-year, December 2016 transportation inflation was unchanged at 0.00%, having declined by 0.18% (-0.18%) in November 2016.
- “Trade” inflation (weighted at 20.34% of the total index) increased month-to-month in December 2016 by 0.18%, having gained 1.25% in November. Seasonal adjustments had a positive impact here, where the unadjusted monthly change was a decline of 0.18% (-0.18%). Unadjusted and year-to-year, December 2016 trade inflation showed a gain of 0.98%, following an annual gain of 1.07% in November 2016.

Final Demand Construction (Weighted at 2.09% of the Aggregate Index). Although a fully self-contained subsection of the Final Demand PPI, Final Demand Construction inflation receives no formal headline coverage. Month-to-month construction inflation declined by 0.09% (-0.09%) in December 2016, having gained 0.09% in November and 0.70% in October. The impact of seasonal factors on the November reading was neutral, where the unadjusted monthly change was minus 0.09% (-0.09%). The issues here are a combination of monthly headline cost changes along with a quarterly estimate of contractor profit-margin changes that have little connection to real-world activity. The latter circumstance was addressed in [Commentary No. 829](#) of September 2nd.

On an unadjusted basis, year-to-year construction inflation rose by 0.61% in December 2016, following annual gains of 0.79% in November 2016 and 0.61% in October 2016. At present, private surveys are showing much higher construction-related inflation than is reported in the PPI, by an order of magnitude of several hundred basis points, such as reflected in the privately-published Building Cost and Construction Cost Indices [Dodge Data and Analytics (McGraw Hill) [Engineering News-Record](#)] and in construction-related price deflators in the National Income Accounts, such as the Gross Domestic Product (GDP). Discussed in [Commentary No. 829](#), ShadowStats has constructed a Composite Construction Deflator (CCD) now used by ShadowStats in deflating the Census Bureau’s monthly estimates of Construction Spending Put in Place in the United States.

PPI-Inflation Impact on Pending Reporting of New Orders for Durable Goods. As to the upcoming reporting of December 2016 new orders for durable goods, monthly inflation (reported only on a not-seasonally-adjusted basis) for new orders for manufactured durable goods was 0.18% having been “unchanged” at 0.00% in November and gaining 0.42% in October 2016. Year-to-year annual inflation rose to 0.97% in December 2016, having increased to 0.66% in November 2016 from 0.36% in October 2016. December 2016 durable goods orders will be reported on January 27th and covered in ShadowStats [Commentary No. 864](#) of that date.

WEEK, MONTH AND YEAR AHEAD

Deepening Economic Downturn Promises a Frustrated Fed and Rapidly Deteriorating Support for the U.S. Dollar, as the New Administration Takes Over. The publication of [No. 859 Special Commentary](#) updated near-term economic and inflation conditions, and the outlook for same, including the general economic, inflation and systemic distortions evolving out of the Panic of 2008, which have continued in play.

Contrary to the official reporting of an economy that collapsed from 2007 into 2009 and then recovered strongly, into ongoing expansion, underlying domestic reality remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 and never recovered. While the economy bounced off its 2009 trough, it never recovered and began to turn down anew in December 2014, a month that should mark the beginning of a “new” formal recession.

Coincident with and tied to the economic collapse, the U.S. banking system moved to the brink of collapse, a circumstance from which U.S. and global central bank policies never have recovered. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face an unprecedented debasement with a resulting runaway domestic inflation.

The current general trend in weakening expectations for business activity and movement towards looming recession recognition, reflect an ongoing broad spectrum of market-disappointing headline data, which increasingly should push the FOMC back towards expanded quantitative easing. Such is despite the Fed’s rate hike in December 2016 and continued market hype as to multiple rate hikes looming in the year ahead.

In response to an intensifying “new” downturn, financial market expectations should shift towards renewed “easing,” with the effect of triggering a massive sell-off in the U.S. dollar, accompanied by a sharp upturn in oil prices, domestic inflation and heavy flight to the safe-haven qualities of physical gold and silver, with a commensurate rally in the prices of those precious metals. Again, see [No. 859](#) for extended discussion.

Broad economic and systemic details otherwise are reviewed regularly here, with the following special *Commentaries* of particular note: [No. 777 Year-End Special Commentary](#) (December 2015), [No. 742 Special Commentary: A World Increasingly Out of Balance](#) (August 2015) and [No. 692 Special Commentary: 2015 - A World Out of Balance](#) (February 2015). Those publications updated the long-standing hyperinflation and economic outlooks published in [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#) (April 2014) and [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) (April 2014). The two *Hyperinflation* installments remain the primary background material for the hyperinflation circumstance.

Other references on underlying economic reality are the [Public Commentary on Inflation Measurement](#) and the [Public Commentary on Unemployment Measurement](#).

Links to Commentaries of the last month follow here:

[Commentary No. 860](#) reviewed December 2016 labor conditions, and the November trade deficit and construction spending circumstances.

[No. 859 Special Commentary](#) reviewed and previewed economic, financial and systemic developments of the year passed and the year or so ahead.

[Commentary No. 858](#) previewed the year-ahead *Special Commentary*.

[Commentary No. 857](#) covered the latest GDP revision, New Orders for Durable Goods and New- and Existing Home Sales.

[Commentary No. 856](#) covered the latest Housing Starts.

[Commentary No. 855](#) covered the latest CPI and related series, and reviewed the dollar and gold circumstances.

[Commentary No. 854](#) covered the latest Industrial Production, PPI and FOMC meeting.

[Commentary No. 853](#) covered the October Trade Deficit.

[Commentary No. 852](#) covered November Employment and Unemployment, and October Construction Spending.

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 ECONOMIC RELEASES:

Index of Industrial Production (December 2016). The Federal Reserve Board will publish its estimate of December 2016 Industrial Production activity on Wednesday, January 18th, with coverage in *Commentary No. 862* of that date. As usually is the case, the headline monthly reporting likely will come in on the downside of flat, in this case where the December 2016 number follows an initial monthly contraction of 0.4% (-0.4%) in November 2016, along with continued and uninterrupted annual contractions (the 15th straight month). While consensus expectations may settle 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.

Consumer Price Index—CPI (December 2016). The Bureau of Labor Statistics (BLS) will release the December 2016 CPI on Wednesday, January 16th, covered in *Commentary No. 862* of that date. The headline December CPI-U is a good bet to show a continued month-to-month increase, perhaps 0.2% or more, in the context of rising gasoline prices being accelerated to upside by strongly-positive seasonal adjustments to same. Headline, unadjusted year-to-year annual inflation for December 2016 likely will increase to around 2.0%, versus 1.7% in November 2016.

Further Positive Monthly Inflation Impact from Seasonal Adjustments to Gasoline Prices. Average gasoline prices gained in December 2016 by 2.30% for the month on a not-seasonally-adjusted basis, per the Department of Energy (DOE). Where BLS seasonal adjustments to gasoline prices in December again are strongly on the plus-side, they should boost the unadjusted price gasoline prices, with seasonally-adjusted numbers contributing roughly a positive 0.13% 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% or higher is a reasonable expectation.

Annual Inflation Rate. Noted in [Commentary No. 855](#), year-to-year, CPI-U inflation would increase or decrease in headline 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 a forecast 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.

Real Retail Sales (December 2016). The Census Bureau released December 2016 nominal (not-adjusted-for-inflation) Retail Sales today (January 13th), showing a headline monthly gain of 0.63%, with annual growth of 4.13% (see the *Reporting Detail*). Those gains were boosted by rising inflation, and will be

adjusted for the headline December 2016 CPI-U inflation in the January 18th *Commentary No. 862*. With a likely solid increase in the monthly CPI-U, December real retail sales growth should be weaker than the headline nominal activity, hit hard in terms of month-to-month growth, with annual real retail sales growth likely to hold near recession-signal threshold of 2.0%.

Discussed in the *CONSUMER LIQUIDITY* section of [No. 859 Special Commentary](#), 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.

Residential Construction—Housing Starts (December 2016). The Census Bureau will release December 2016 residential construction detail, including Housing Starts, on Thursday, January 19th, covered in *Commentary No. 863* 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 extreme surge and downside correction in the headline October and November numbers, almost anything is possible in this unstable series.

Irrespective of the generally meaningless headline detail, the broad pattern of housing starts still should remain consistent with the low-level, stagnant activity, seen at present, where November 2016 activity was down by 55% (-55%) from recovering the pre-recession high of the series. 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* section of [No. 859 Special Commentary](#), 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 sustainable growth in demand for residential construction.

SPENDING SPECIAL COMMENTARIES.

Discussed in *Opening Comments* and in the *FEDERAL DEBT AND DEFICIT* section of [No. 859 Special Commentary](#), the U.S. Treasury released the GAAP-based accounting (based on Generally Accepted Accounting Principles) financial statements of the United States government for fiscal-year 2016, on January 12th. Audited by the GAO, that detail will be combined with prior annual reporting and related analyses to prepare a *Special Commentary* updating and summarizing—including in graphic and tabular

form—the U.S. government’s GAAP-based obligations and annual operations, as well as a discussion as to different approaches to looking at the concept of net present value.

Targeted timing for publication of that analysis, as well the long-planned and delayed consolidation of the major *ShadowStats* reporting into one volume, including the recommended reading list, will follow here, shortly.
