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

SPECIAL COMMENTARY NUMBER 904
Economic and Financial Market Review, July Consumer and Producer Price Indices

August 14, 2017

A L E R T

U.S. Dollar and Equity Markets Face High Risks in the Near Future, with Impact of Deteriorating Domestic-Economic Activity Exacerbated by Domestic- and Global-Political Circumstances

Residual Squirreling Instincts in Investors: 2017 Circumstances Are More Dangerous Than in 1987

U.S. Dollar Has Turned Down Year-to-Year

Continued Headline Economic Slowing and Contraction Ahead

Physical Holdings of Gold and Silver Offer Store-of-Wealth Hedging, Liquidity, Safety

---

July CPI-U Inflation Monthly Gain of 0.11%, Pulled Annual CPI-U Inflation Higher to 1.73% (Was 1.63%), with CPI-W at 1.64% (Was 1.50%) and ShadowStats at 9.4% (Was 9.3%)

Softening Annual Consumer Inflation Appears to Have Troughed, Temporarily

July 2017 Annual Final-Demand PPI Slowed to 1.90% from 1.99% in June

---

PLEASE NOTE: The next Regular Commentary, *planned for Thursday, August 17th, will cover July Retail Sales, Industrial Production and Housing Starts.*

Written: August 13, 2017. Best wishes to all — John Williams (707) 763-5786

Today's *Opening Comments and Executive Summary* (August 14th). The ***Opening Comments*** review circumstances that have surrounded some financial-market panics and relate to today's environment. The *Comments* also are in the context the economic and financial-market conditions discussed in the *Hyperinflation Watch*. The ***Executive Summary*** (page 3) highlights details of the July CPI and PPI reporting.

The ***Reporting Detail*** (page 5) provides graphs and extended analysis tied to the latest inflation reporting.

The ***Hyperinflation Watch*** (page 18) reviews current conditions and the near-term outlook for economy and the financial markets. The time is at hand to look at battening down the hatches as a great financial/economic storm begins to move onshore, exacerbated by mounting domestic and global political tensions.

The ***Consumer Liquidity Watch*** (page 24) has been updated for July 2017 Real Average Weekly Earnings and for June Consumer Credit Outstanding.

The ***Week, Month and Year Ahead*** (page 34) provides links to recent *Commentaries* and previews this week's releases of the July Retail Sales, Housing Starts and Industrial Production.

OPENING COMMENTS AND EXECUTIVE SUMMARY

Stock-Market Crashes, Financial Panics and Investors' Residual Squirreling Instincts. Six weeks shy of the first day of autumn, the squirrelly season almost is upon us. Some months before the 1987 stock-market crash, I retained a mass-psychologist in an effort to explain why stock-market crashes tended to take place in October and November (at the time, I was predicting an October crash). He came back with an answer that humans had a vestigial squirreling instinct. As the squirrels suddenly start gathering acorns for the winter, so too do humans, or at least their investment strategies suddenly can shift enough towards safety to burst an extreme stock-market bubble.

Discussed here previously, there are parallel stresses in other circumstances. For example, particular alignments of the sun and moon can help to trigger an earthquake, as was seen with a 2014 quake near Napa, California. "Ah, but we don't have an earthquake with every new or full moon!" noted my prescient wife in response to my comment to that effect, after having been awakened at the time by the temblor.

"True, but wooden chairs do not always collapse when I sit on them," I noted, having broken more than my share of antique wooden chairs, due to the basic fragility of the chair, my bulk and stresses from the active shifting of my body, while sitting. "The effects of those stresses build up and damage a chair over time," I explained. "When the chair is vulnerable to breaking, it will do so, given the right pressure."

The same is true with earthquake faults and irrational stock markets. Carefully massaged and orchestrated by Federal Reserve machinations and jawboning, in the wake of still-unresolved systemic imbalances from the financial panic and near-collapse of the U.S. banking system in 2008, and with strong, related support on Wall Street, the current strength and recent record-highs in U.S. equity prices should be viewed with extreme caution, particularly in the next several months.

***Some Early Anecdotal Signals*.** The underlying squirreling-instinct issue is a repeating circumstance for the financial markets each year in the October/November timeframe. Rarely, though, has the circumstance been so fragile. In the weeks before the 1987 crash, one client with whom I discussed the squirreling theory was Treasurer of one of the largest U.S. corporations. "John," he responded, somewhat hesitantly, "a couple of weeks ago, I would have said you were nuts. I was looking forward then to buying a new car. Last week, though, I changed my mind—just a shift in mood—and decided to hold off for a while."

I mention the preceding, where, in the last couple of weeks, I have received an unusually high level of phone calls from clients expressing concern about the near-term direction of the stock market and systemic stability. If you would like to discuss this, please call me directly at (707) 763-5786.

Stocks rarely crash off record highs. The Dow Jones Industrial Average hit an all-time high in late-August 1987, and it is just off its most-recent all-time high as we go to press on August 13, 2017.

Reviewed in today's *Hyperinflation Watch,* faltering, underlying economic fundamentals, with non-consensus impact on FOMC policy, and negative-pressures from political circumstances, increasingly should hit the U.S. dollar (the dollar just turned down year-to-year on both financial- and trade-weighted bases). Parallel impact looms for domestic-equity prices and prices of U.S. Treasury securities, as dollar selling picks up sharply.

Intensifying dollar weakness was a problem in 1987. Alan Greenspan, then the new Federal Reserve Chairman, raised rates in September 1987 in an unsuccessful effort to prop the U.S. currency. Exacerbated by Saturday, October 17th comments of then-Treasury Secretary James Baker that the United States no longer would support the U.S. dollar against the Deutschemark, ensuing panicked U.S. dollar selling was a proximal trigger to the stock-selling panic on Monday, October 19th.

Watch out for intensifying selling of the U.S. dollar in the weeks and months ahead. The time is at hand to look at battening down the hatches as a great financial/economic storm begins to move onshore, exacerbated by mounting domestic and global political tensions (see the *Hyperinflation Watch* page 18).

EXECUTIVE SUMMARY: Consumer Price Index—July 2017—CPI-U Gained 0.11% Month-to-Month, 1.73% Year-to-Year. Where regular reporting in the first-half of the calendar year shows a pattern of downside seasonal-adjustments to monthly CPI growth, that reverses in July, for the second-half. Where headline July 2017 CPI-U monthly inflation of 0.11% was weaker than consensus forecasts for a 0.2% gain, not seasonally adjusted, as people experience life, inflation declined by 0.07% (-0.07%).

In contrast to the July 2017 Producer Price Index (PPI), which continued backing off its 62-month high annual inflation rate of 2.45% in April 2017, unadjusted, year-to-year CPI-U inflation remained off its 60-month high of 2.74% of February 2017, but it rebounded in July 2017 to 1.73% from its interim June 2017 low of 1.63%. As with the PPI, what had been the recent inflation surge into early 2017 CPI was driven by gasoline prices, not by an overheating economy. Those pressures go both ways and, again, are affected heavily by seasonal adjustments.

Separately, with annual July 2017 CPI-U inflation rising by 1.73%, 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. Moving on top of the unadjusted annual changes to the CPI-U, the ShadowStats-Alternate Inflation Measures showed year-to-year inflation in July 2017 rising to 5.3% from 5.2% in June 2017, based on 1990 methodologies, and to 9.4% from 9.3% in June 2017, based on 1980 methodologies.

The Consumer Price Index for All Urban Consumers (CPI-U) is the broadest headline consumer-inflation number and is 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. July 2017 seasonally-adjusted CPI-W rose month-to-month by 1.0%, having declined by 0.46% (-0.46%) in June. Unadjusted, year-to-year change in the July 2017 CPI-W was 1.64%, up from 1.50% in June 2017.

Real Retail Sales—July 2017—Nominal Growth Will Be Reduced by 0.11% (-0.11%) Month-to-Month, by 1.73% (-1.73%) Year-to-Year. Nominal Retail Sales for July 2017 will be released on Tuesday, August 15th, and covered in *Commentary No. 905* of August 17th. Headline July 2017 inflation-adjusted real retail sales will show growth rates reduced as headlined above.

Real Average Weekly Earnings—July 2017—Month-to-Month Real Earnings Rose. Details are reported in the *Reporting Detail* and plotted in *Graph CL-7* in the *Consumer Liquidity Watch*,

Producer Price Index (PPI)—July 2017—Declining Aggregate PPI: Beyond Surging Construction Inflation, Deflation in Goods and Services Was Nonsense. In the continuing context of negatively-skewed seasonal adjustments to, and poor-quality theoretical constructs of underlying component series, headline aggregate "wholesale inflation" or the Final Demand Producer Price Index declined in July 2017 by 0.09% (-0.09%), reversing the gain in June inflation. While that composite number reflected a headline PPI Goods deflation of 0.09% (-0.09%) month-to-month, Construction Spending surged by 1.21% and the dominant "margins" in the Services sector deflated by 0.18% (-0.18%), nonsensically depressed by "rising" chemical prices (see *Services-Side Nonsense Detail* in the *Reporting Detail*).

Annual growth continued to slow from its recent multi-year peak of 2.45% April 2017, to 2.36% in May 2017, to 1.99% in June 2017 and to 1.90% in July 2017 detail. As discussed in the *Reporting Detail*, the April 2017 peak in annual PPI inflation was due to volatile gasoline prices, not due to an overheating economy as commonly claimed by Fed apologists hoping to reboot higher interest-rate levels.

[The* Reporting Detail *follows, with graphs and extended analysis.]

____

REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (July 2017)

Headline CPI-U Gained 0.11% for the Month, Rose to 1.73% Year-to-Year. Repeating patterns of recent years, more-positive seasonal adjustment factors, beginning in July 2017, have started to boost the headline reporting of CPI-inflation for the second-half of the calendar year, beginning to reverse the negatively-biased reporting of the seasonally-adjusted monthly inflation in the first-half of the year. The headline July 2017 CPI-U monthly inflation of 0.11% was weaker than consensus expectations for a 0.2% gain, still reflecting some relatively negative seasonal adjustments. Yet, not adjusted for seasonal factors, as most people experience life, headline CPI-U inflation declined by 0.07% (-0.07%) month-to-month in July 2017. Nonetheless, the level of the seasonally-adjusted CPI-U in July 2017 still was down by 0.05% (-0.05%) from January 2017, although it was up by 0.51% from December 2016.

In contrast to the July 2017 Producer Price Index (PPI), which continued backing off its 62-month high annual inflation rate of 2.45% in April 2017, dropping to 1.90% in July 2017, unadjusted, year-to-year CPI-U inflation remained off its 60-month high of 2.74% of February 2017, but it rebounded some in July 2017 to 1.73% from its interim low of 1.63% in June 2017. As with the PPI, what had been the recent inflation surge into the February 2017 CPI was driven by gasoline prices, not by an overheating economy. Those pressures go both ways and, again, are affected heavily by seasonal adjustments.

Consider that in July 2017, the Bureau of Labor Statistics (BLS) reported that gasoline declined by 2.29% (-2.29%) month-to-month, unadjusted; that is what people paid at the pump. Seasonally-adjusted, however, headline gasoline prices were little changed, up by 0.03% month-to-month. Meaningful seasonal adjustments are difficult to work, when most pricing volatility of the last two-to-three years has continued to be largely independent of regular monthly patterns of seasonality.

Separately, with headline annual July 2017 CPI-U inflation rising by 1.73%, 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. Moving on top of the unadjusted annual changes to the CPI-U, the ShadowStats-Alternate Inflation Measures showed year-to-year inflation in July 2017 rising to 5.3% [previously 5.2% in June 2017], based on 1990 methodologies, and to 9.4% [previously 9.3% in June 2017], based on 1980 methodologies.

Longer-Range Inflation Outlook. Despite U.S. dollar strength of recent years, and what had been accelerating, now faltering dollar strength subsequent to the election and the last rate hike, a tremendous threat to the dollar and systemic liquidity and stability continues, tied to the U.S. Federal Reserve's ongoing inability to resolve fundamentally the 2008 financial collapse, other than having bought limited time with its emergency, stopgap measures. Discussed in the accompanying *Hyperinflation Watch*, recent Fed tightening action was despite continued, intensifying "adverse" economic circumstances. Forced to prop banking-system liquidity against the ongoing gale of renewed, economically-driven, banking-system solvency and liquidity issues, the FOMC likely will revert to renewed and expanded quantitative easing. That circumstance is compounded by political discord in Washington and mounting global political instabilities.

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, had been nil, up through the advent of the Trump Administration. Given standard lead times, any positive impact from an increasingly-unlikely, economic-stimulus package this year would not have significant effect now until late-2018, at the earliest, a time lapse fraught with potential disaster created by a still-incapacitated Fed, fighting to the death a battle it already lost in the 2008 panic.

In the context of current economic reporting and signals, faltering economic activity has become increasingly obvious, along with related, increasing stresses on domestic systemic-liquidity and solvency issues, again, pushing the U.S. central bank back towards expanded quantitative easing in the next several months. Such will generate high risks 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 still have no effective idea as to how to boost current economic activity, how to stabilize global banking-system solvency, or otherwise how to slog their way out of a self-generated quagmire. That circumstance only can be exacerbated by any intensification of systemic-political moves against President Trump by his opposition (see *Special Commentary No. 888*).

____

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:

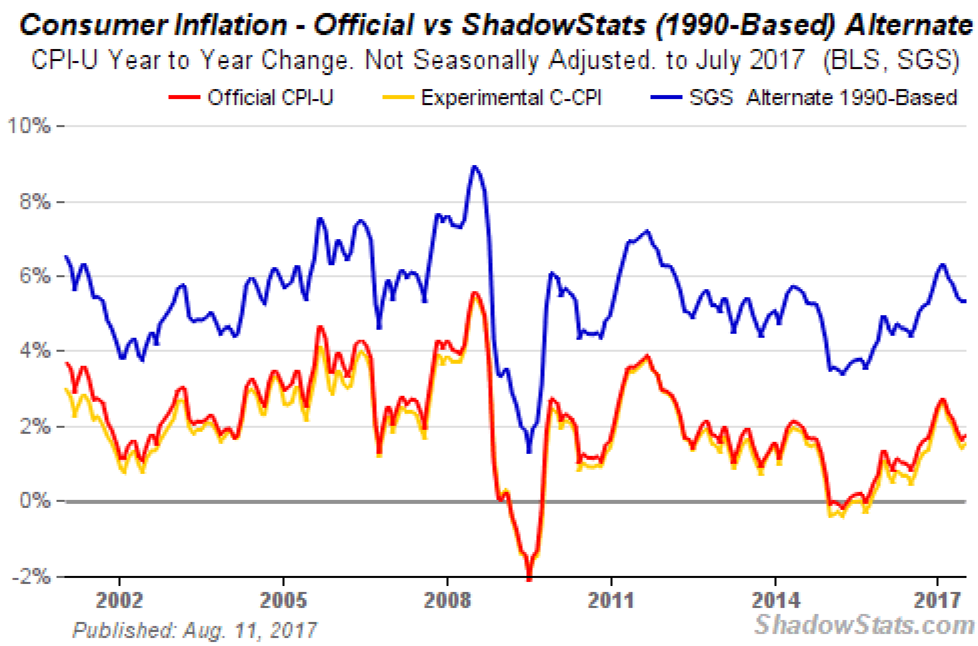
*The **CPI-U (Consumer Price Index for All Urban Consumers)** is the monthly headline inflation number (seasonally adjusted) and is the broadest in its coverage, representing the buying patterns of all urban consumers. Its standard measure is not seasonally-adjusted, and it never is revised on that basis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

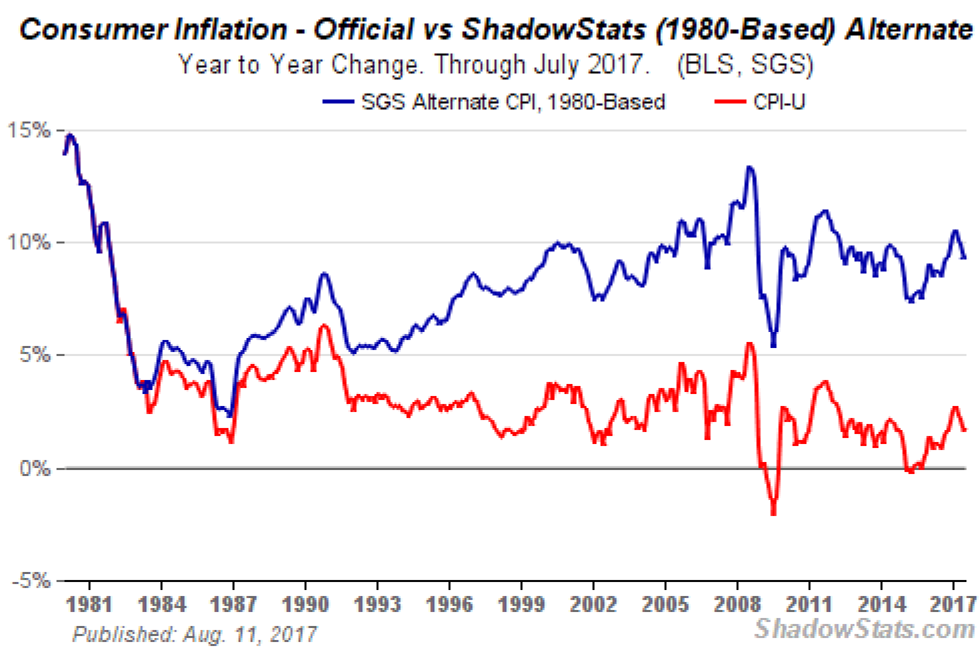
*The **C-CPI-U (Chain-Weighted CPI-U)** is an experimental measure, where the weighting of components is fully substitution based. It generally shows lower annual inflation rate than the CPI-U and CPI-W. The latter two measures once had fixed weightings—so as to measure the cost of living of maintaining 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.*

Graph 1: Comparative Headline Year-to-Year Change, CPI-U vs. ShadowStats 1990-Based Alternate



Graph 2: Comparative Headline Year-to-Year Change, CPI-U vs. ShadowStats 1980-Based Alternate



CPI-U. The Bureau of Labor Statistics (BLS) reported August 11th, that headline, seasonally-adjusted July 2017 CPI-U inflation increased month-to-month by 0.1% [up by 0.11% at the second decimal point], following "unchanged" at 0.0% [actual decline of 0.02% (-0.02%)] in June, a decline of 0.1% (-0.1%) [0.13% (-0.13%)] in May, an increase in April of 0.2% [up by 0.17%], a March drop of 0.3% (-0.3%) [down by 0.29% (-0.29%)], and monthly gains of 0.1% [up by 0.12%] in February, 0.6% [0.55%] in January, and 0.3% [0.26%] in December 2016.

The adjusted July 2017 monthly inflation increase reflected a gain in food inflation, despite negative seasonals, a gain in "core" inflation (everything but food and energy), due entirely to positive seasonals, offset by minimal negative inflation in the energy sector that other was boosted from a more-negative circumstance by positive seasonals. On an unadjusted basis, monthly July 2017 CPI-U declined by 0.07% (-0.07%), having gained 0.09% in June, 0.08% in May, 0.30% in April, 0.08% in March, 0.31% in February, 0.58% in January and 0.03% in December 2016.

<u>Major CPI-U Groups</u>. Encompassed by the July 2017 CPI-U seasonally-adjusted monthly gain of 0.11% [down by an unadjusted 0.07% (-0.07%)], July 2017 food inflation rose by 0.17% [up by 0.22% unadjusted], energy inflation fell by a seasonally-adjusted 0.11% (-0.11%) in July [down by an unadjusted 1.02% (-1.02)], while the adjusted July "core" (ex-food and energy) inflation rate rose by 0.11% [down by 0.03% (-0.03%) unadjusted].

Running contrary to FOMC hopes and expectations, core CPI-U inflation showed unadjusted year-to-year inflation of 1.69% in July 2017, down from 1.70% in June 2017, 1.73% in May 2017, 1.88% in April 2017, 2.00% in March 2017, 2.22% in February 2017, 2.27% in January 2017 and versus 2.20% in December 2016.

July 2017 seasonal adjustments for monthly gasoline inflation—usually reflective of the dominant pressure in energy prices—turned positive, having been heavily negative since February, again, turning a CPI-U unadjusted monthly decline of 2.29% (-2.29%) in gasoline prices to an adjusted minimal monthly gain of 0.03%. The Department of Energy (DOE) had estimated an unadjusted monthly decline in July gasoline prices of just 1.87% (-1.87%).

While early-August 2017 retail gasoline prices (DOE) are running higher month-to-month, versus July, positive seasonal adjustments to August 2017 gasoline suggest an increasingly positive impact from gasoline, with a relatively-strong, seasonally-adjusted aggregate monthly gain in the August CPI-U likely, possibly 0.3% or more.

<u>Year-to-Year CPI-U</u>. Not seasonally adjusted, July 2017 year-to-year inflation for the CPI-U rose to 1.% [1.73% at the second decimal point] versus 1.6% [1.63%] in June 2017 and against 1.9% [1.87%] in May 2017, 2.2% [2.20%] in April 2016, 2.4% [2.38%] in March 2017, a 60-month high of 2.7% [2.74%] in February 2017, 2.5% [2.50%] in January 2017 and 2.1% [2.07%] in December 2016.

Year-to-year, CPI-U inflation would increase or decrease in next month's August 2017 reporting, dependent on the seasonally-adjusted month-to-month change, versus the adjusted, headline gain of 0.20% in August 2016 CPI-U. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for August 2017, the difference in August's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the July 2017 annual inflation rate of 1.73%. Given an early guess of a seasonally-adjusted 0.3% gain in the monthly August 2017 CPI-U, that would leave the annual CPI-U inflation rate for August increasing to about 1.8%, plus-or-minus, depending on rounding.

Quarterly CPI-U. On an annualized quarter-to-quarter basis, seasonally-adjusted CPI-U declined by 0.16% (-0.16%) in second-quarter 2017, as reported last month, having gained by 3.15% in first-quarter 2017, 3.44% in fourth-quarter 2016, 1.63% in third-quarter 2016, 2.53% in second-quarter 2016 and having declined by 0.31% (-0.31%) in first-quarter 2016.

On an unadjusted, year-to-year basis, annual inflation by quarter was up by 1.35% in second-quarter 2017, versus 2.54% in first-quarter 2017, 1.80% in fourth-quarter 2016, 1.12% in third-quarter 2016, 1.05% in second-quarter 2016 and 1.08% in first-quarter 2016.

Annual Average CPI-U. The annual average CPI-U inflation rate was 1.26% in 2016, versus 0.12% in 2015.

CPI-W. The July 2017 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 0.10% in July 2017, following monthly declines of 0.05% (-0.05%) in June and 0.20% (-0.20%) in May, following a monthly gain of 0.18% in April, a decline of 0.37% (-0.37%) in March, and gains of 0.06% in February, 0.61% in January and 0.29% in December 2016.

On an unadjusted basis, year-to-year CPI-W rose 1.64% in July 2017 versus 1.50% in June 2017, 1.78% in May 2017, 2.14% in April 2017, 2.35% in March 2017, 2.82% in February 2017, 2.51% in January 2017 and 1.99% in December 2016.

Quarterly CPI-W. As reported last month, on an annualized quarter-to-quarter basis, seasonally-adjusted CPI-W declined by 0.39% (-0.39%) in second-quarter 2017, having gained by 3.22% in first-quarter 2017, by 3.80% in fourth-quarter 2016, 1.40% in third-quarter 2016 and 2.56% in second-quarter 2016, having declined in first-quarter 2016 by 1.08% (-1.08%). On an unadjusted year-to-year basis, annual inflation by quarter was up by 1.56% in second-quarter 2017, versus 2.56% in first-quarter 2017, 1.65% in fourth-quarter 2016, 0.76% in third-quarter 2016, 0.71% in second-quarter 2016 and 0.79% in first-quarter 2016.

Annual CPI-W. The annual average CPI-W inflation rate was 0.98% in 2016, versus an annual average contraction of 0.41% (-0.41%) in 2015.

Chained-CPI-U. The headline C-CPI-U is not seasonally adjusted, but it is revised quarterly for the prior year, as was seen in the headline July 2017 reporting. Year-to-year change in the "transitional" month of August 2016 was revised lower by 0.03% (-0.03%), with annual change in each subsequent month, through June 2017, revising lower by 0.07% (-0.07%). July 2017 was reported on basis consistent with the prior revisions.

Accordingly, headline July 2017 C-CPI-U annual inflation came in at 1.51% in July 2017, versus 1.39% [previously 1.46%] in June 2017, 1.66% [previously 1.73%] in May 2017 and 2.02% [previously 2.09%] in April 2017.

Revised Quarterly C-CPI-U, Year-to-Year. On an unadjusted, year-to-year basis, annual inflation by quarter was up by a revised 1.69% [previously] 1.76% in second-quarter 2017, versus 2.41% [previously 2.48%] in first-quarter 2017, 1.51% [previously 1.58%] in fourth-quarter 2016, 0.74% [previously 0.78%] in third-quarter 2016, 0.73% in second-quarter 2016 and 0.76% in first-quarter 2016.

Revised Annual Average C-CPI-U. The annual average C-CPI-U inflation rate was 0.93% [previously 0.96%] in 2016, versus an annual average price index contraction of 0.12% (-0.12%) in 2015.

See discussions in the earlier CPI *Commentary No. 721* and in the opening notes in the *CPI Section* of *Commentary No. 699* as to recent changes in the series. More-frequent revisions and earlier finalization of monthly detail broadly 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 July 2017, versus 5.2% in June 2017, 5.5% in May 2017, 5.8% in April 2017, 6.0% in March 2017, 6.3% in February 2017, 6.1% in January 2017 and 5.7% in December 2016.

The July 2017 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 9.4% (9.44% at the second decimal point) in July 2017, versus 9.3% (9.34%) in June 2017, 9.6% (9.60%) in May 2017, 10.0% (9.95%) in April 2017, 10.1% (10.14%) in March 2017, 10.5% (10.53%) in February 2017, 10.3% (10.27%) in January 2017 and 9.8% (9.81%) in December 2016. Detail, along with an inflation calculator will be found in the CPI section of the Alternate Data tab of the www.ShadowStats.com home page.

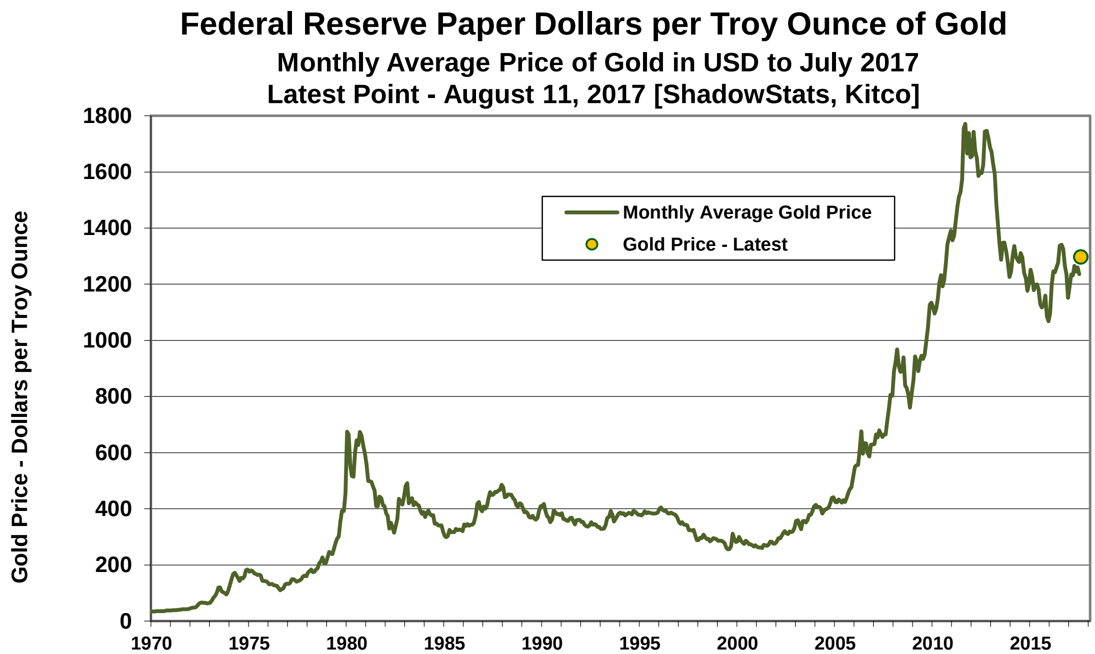
Note: The ShadowStats-Alternate Consumer Inflation Measures largely have been reverse-engineered from BLS estimates of the anticipated impact on annual CPI inflation from various changes made to CPI reporting methodology since the early 1980s, as also incorporated in the CPI-U-RS series. That series 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 3: Monthly Average Gold Price in Dollars (Federal Reserve Notes)



Gold and Silver Historic High Prices Adjusted for July 2017 CPI-U/ShadowStats Inflation—

CPI-U: GOLD at $2,674 per Troy Ounce, SILVER at $156 per Troy Ounce
ShadowStats: GOLD at $14,419 per Troy Ounce, SILVER at $839 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 $2,674 per troy ounce, based on July 2017 CPI-U-adjusted dollars, and $14,419 per troy ounce, based on July 2017 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 July 2017 CPI-U inflation, the 1980 silver-price peak would be $156 per troy ounce and would be $839 per troy ounce in terms of the July 2017 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

Shown in *Table 1*, on page 47 of *No. 859 Special Commentary*, 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 Retail Sales—July 2017—Nominal Monthly Growth Will Be Reduced by 0.11% (-0.11%) Month-to-Month, by 1.73% Year-to-Year. Nominal Retail Sales for July 2017 will be released tomorrow on Tuesday, August 15th, and covered in *Commentary No. 905* of August 17th. Based on the headline CPI-U reporting for July 2017, headline inflation-adjusted real retail sales will show growth rates reduced versus headline nominal growth by 0.11% (-0.11%) month-to-month and by 1.73% (-1.73%) year-to-year.

Real Average Weekly Earnings—July 2017—Month-to-Month Real Earnings Rose. *[Note: Details are reflected in Graph CL-7 of today's Consumer Liquidity Watch.]* The headline estimate for July 2017 real average weekly earnings was published coincident with August 11th release of the July 2017 CPI-W. In the production and nonsupervisory employees category—the only series for which there is a meaningful history, the regularly-volatile real average weekly earnings were up by 0.18% in July 2017, versus a downwardly-revised 0.27% [previously 0.53%] gain in June, a revised 0.34% [previously 0.04%] gain in May 2017 and against unrevised monthly gains of 0.39% in April 2017, 0.55% in March 2017, 0.07% in February and versus a monthly contraction in January of 0.47% (-0.47%), which had been the sixth consecutive monthly decline for the series.

Year-to-year, the adjusted July 2017 year-to-year real change slowed to 0.71%, versus a revised 1.14% [previously 1.10%] in June, a revised 0.89% [previously 0.59%, initially 0.63%] gain in May 2017, versus an unrevised annual gain of 0.49% in April 2017 and annual declines of 0.01% (-0.01%) in March 2017, 0.39% (-0.39%) in February 2017 and 0.46% (-0.46%) in January 2017.

Second-quarter 2017 activity reflected a revised, annualized real quarterly gain of 4.49% [previously 4.01%], following unrevised contractions in first-quarter 2017 of 1.13% (-1.13%), in fourth-quarter 2016 of 1.36% (-1.36%), and third-quarter 2016 growth of 1.48%, a second-quarter 2016 contraction of 0.11% (-0.11%) and first-quarter 2016 annualized growth of 1.81%.

Year-to-year change in second-quarter 2017 real earnings rose by a revised 0.84% [previously 0.73%], following an unrevised annual contraction of 0.29% (-0.29%) in first-quarter 2017, the first annual or year-to-year quarterly contraction since fourth-quarter 2012, when the real GDP effectively was unchanged quarter-to-quarter. The signal there highlighted financial stresses on the consumer and major downside risk to headline real GDP reporting.

Based solely on volatile initial reporting for July 2017, the early-trend for real third-quarter 2017 activity is for an annualized quarterly gain of 1.89%, with year-to-year real quarterly growth of 0.94%.

The 2015 rally in real annual income and the subsequent slowdown in latter 2016 and pickup in 2017 pickup were tied and continue to be tied directly to the impact of irregularly-collapsing/rising gasoline prices, and intermittent, subsequent rebound/decline in 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 monthly data here are not comparable due to reporting issues with concurrent seasonal factor adjustments (see *Headline Distortions from Shifting Concurrent-Seasonal Factors* on page 29 of prior *Commentary No. 903*).

Separately, the CPI-W deflated reporting here also is biased 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 relatively neutral in July 2017 detail, where negligible seasonally adjusted gasoline prices helped to generate a headline, seasonally-adjusted CPI-W gain of 0.10% month-to-month, versus the parallel CPI-U gain of 0.11%.

Again, *Consumer Liquidity Watch Graph CL-7* 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.

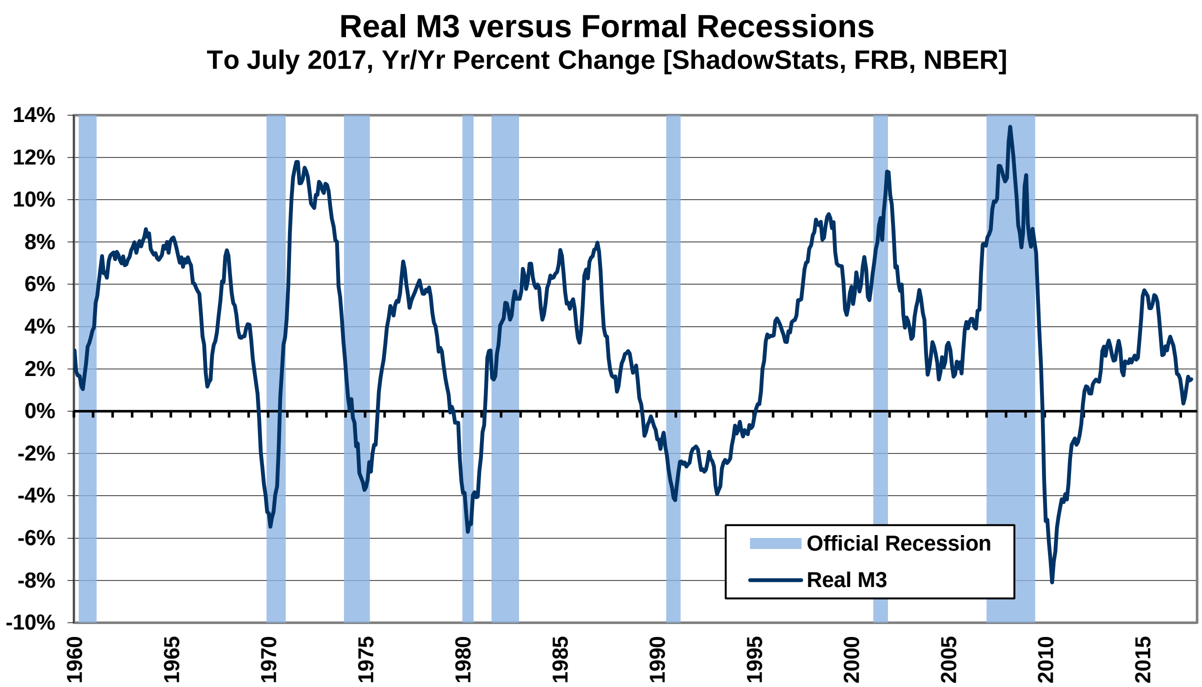
Real (Inflation-Adjusted) Money Supply M3—June 2017—Annual Growth Notched Higher, Reflecting an Uptick in Nominal M3 Growth Somewhat Larger than the CPI-U Uptick. The signal for a double-dip, multiple-dip or simply protracted, ongoing recession, based on annual contraction in the real (inflation-adjusted) broad money supply (M3), recently had been re-triggered/intensified, but that signal then softened with a continuing, contrary bounce in May 2017. The previous signal had been, and has remained in place, despite real annual M3 growth having rallied into positive territory post-2010, and the real growth pattern turned down anew, with annual nominal M3 growth slowing faster than CPI-U annual inflation in June 2017, with a minimal reversal of trend in July 2017

Shown in *Graph 4*—based on July 2017 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in July 2017 M3 notched higher to 1.51% from a revised 1.46% [previously 1.48%] in June 2017, but still down from an unrevised 1.64% in May 2017. That growth remained down from peak growth of a 5.71% in February 2015. The minimal firming in the July versus June numbers, reflected a notch higher in nominal July 2017 M3 annual growth to 3.24% from a revised 3.09% [previously 3.11%] in June 2017 (see prior *Commentary No. 898*), with an offset from a gain in unadjusted headline CPI-U annual inflation from 1.63% in June to 1.73% in July (see today's earlier CPI-U headline detail).

The recent monthly upticks in annual growth still are likely to have reflected a temporary reversal in the pattern of plunging annual growth, which has held at levels last seen in plunging growth into the 2009 economic collapse, a level always seen going into, or already in a recession.

The signal for a downturn or an intensified downturn is generated when annual growth in real M3 first slows sharply, approaches zero and 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 previous "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 2009 (see *Commentary No. 877* and *Commentary No. 902-B*). The initial economic downturn never evolved into a meaningful or sustainable recovery. The current level and pattern of real annual M3 growth generally has been followed by annual contraction and recession signal.

Graph 4: Real M3 Annual Growth versus Formal Recessions



Again, when real M3 growth breaks above zero, there is no signal; the signal is generated only when annual growth moves to zero and into negative territory, where it has backed off 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—in protracted stagnation, with no actual recovery (again, see *Commentary No. 902-B*, and the *ECONOMY* section of *No. 859 Special Commentary*).

Despite the purported, ongoing recovery shown in headline GDP activity, a renewed downturn in official data is underway that likely still will gain official recognition as a "new" recession, in the months ahead. Underlying reality remains that the collapse into 2009 was followed by a plateau of low-level economic activity—no meaningful upturn, no full recovery from or end to the official 2007 recession, no new economic expansion—where the unfolding "new" downturn remains nothing more than a continuation and re-intensification of a downturn that began unofficially in 2006.

PRODUCER PRICE INDEX—PPI (July 2017)

July 2017 Final Demand PPI: Beyond Surging Construction Inflation, Deflation in PPI Goods and Services Was Nonsense. In the continuing context of negatively-skewed seasonal adjustments to, and poor-quality theoretical constructs of underlying component series, headline aggregate "wholesale inflation" or the Final Demand Producer Price Index declined by 0.09% (-0.09%) in July 2017, reversing the headline gain in June inflation. While that composite number reflected a headline PPI Goods deflation of 0.09% (-0.09%) month-to-month, Construction Spending surged by 1.21% and the dominant "margins" in the Services sector deflated by 0.18% (-0.18%), depressed by rising chemical prices (see *Services-Side Nonsense Detail*). Annual growth continued to slow from its recent multi-year peak.

Recent Annual Inflation Spike Not Due to Overheating Economy. With headline annual inflation having hit a 62-month high of 2.45% in April 2017, now having backed off to 1.90% July 2017, and as previously discussed here, the recent jump in annual headline PPI-FD inflation did not reflected an overheating economy, as claimed by some at the Fed. The headline issue remains energy-price distortions in the last several years that have been rigged heavily through the Federal Reserve's interest-rate jawboning and dollar-propping gimmicks, combined with recent OPEC-supply jawboning, as well as food supply issues. That said, headline July 2017 energy prices declined sharply month-to-month, for the third month (seasonally-adjusted), although slowing annual growth in recent months flattened out in July, both before and after seasonal adjustment.

Separate from the services-related definitional issues, headline seasonally-adjusted monthly goods deflation in July of 0.09% (-0.09%), reflected food prices unchanged at 0.00%, with energy prices down by 0.31% (-0.31%). Before seasonal adjustments, goods inflation also declined by of 0.09% (-0.09%) in the month, with food inflation down by 0.08% (-0.08%), with energy prices unchanged at 0.00%.

Massive PPI Overhaul Due for Publication in February 2018. Announced in the latest, August 10th *Press Release*, all PPI weightings will undergo significant revisions (updating current weightings, based on 2007, to weightings based on 2012 detail.). Final Demand Producer Price Index and its key component indices such as Final Demand Goods and Final Demand Services only go back to November 2009. Current starting-month index levels of 100.0 will be maintained at 100.0.

Services-Side Nonsense Detail. The headline monthly PPI Final Demand inflation generally reflects neither real-world activity, nor common experience, except by possible coincidence. As structured, the monthly wholesale inflation rate remains dominated by the services sector, which remains of negligible common-experience or theoretical value, as discussed in the following *Bulk of Headline PPI Reporting Is of Little Practical Use* section. It also has proven to be highly unstable in its surveying and related reporting. Consider that the monthly PPI detail is subject to revision five months after its initial reporting.

For the March 2017 PPI revision, released with the July 2017 reporting, the headline index level revised lower by 0.09% (-0.09%), with the monthly change revising from an initial month-to-month gain of 0.09% to unchanged at 0.00%. A net positive impact 0.09% from revised inflation on the goods side, was more than offset by a net-negative revision, downside adjustment of 0.18% (-0.18%) in the dominant services area, with downside revisions particularly in the unstable and, again, theoretically-challenged trade services sector as well as in transportation and warehousing (see *Inflation That Is More Theoretical than Real World*).

Bulk of Headline PPI Reporting Is of Little Practical Use. *[The background text here and in the next subsection is as published previously.]* 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 subsection, 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. 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.

July 2017 Headline PPI Detail. The Bureau of Labor Statistics (BLS) reported August 10th, that the seasonally-adjusted, month-to-month, headline Producer Price Index Final-Demand (PPI-FD) inflation for July 2017 in fact was deflation of 0.09% (-0.09%), just offsetting the headline monthly gain of 0.09%, in June versus an unchanged at 0.00% in May, versus an upwardly-revised monthly gain of 0.63% [previously 0.54%] in April, due to the five-month revision to March 2017, which now stands at "unchanged" at 0.00% [previously a gain of 0.09%, initially down by 0.09% (-0.09%)].

On a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year PPI-FD inflation in July 2017 slowed to 1.90%, versus 1.99% in June 2017, 2.36% in May 2017, 2.45% in April 2017, and a revised 2.19% [previously 2.28%] in March 2017.

For the three major subcategories of July 2017 PPI-FD, headline monthly Goods inflation declined by 0.09% (-0.09%), Services “inflation” (profit margins) declined by 0.18% (-0.18%) and Construction inflation jumped by 1.21%, with respective unadjusted annual growth rates of 2.30%, 1.79% and 3.17%.

Final Demand Goods (weighted at 33.81% of the Aggregate Index). Running somewhat in parallel with the old Finished Goods PPI series, headline month-to-month Final Demand Goods inflation in July 2017 declined by 0.09% (-0.09%), having gained by 0.09% in June and having declined by 0.54% (-0.54%) in May. There was neutral impact on the aggregate goods headline reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, July inflation also declined by 0.09% (-0.09%) month-to-month.

Unadjusted, year-to-year goods inflation in July 2017 showed an annual gain of 2.30%, following gains of 2.21% in June 2017 and 2.88% in May 2017.

Headline seasonally-adjusted monthly changes by major components of the July 2017 Final Demand Goods:

- “Foods” inflation (weighted at 5.40% of the total index) was unchanged month-to-month at 0.00% in July 2017, having gained 0.60% in June and having declined by 0.17% (-0.17%) in May. Seasonal adjustments were positive for the July headline change, which eased by 0.08% (-0.08%) unadjusted. Unadjusted and year-to-year, annual July 2017 foods inflation rose by 1.90%, having gained by 1.11% in June 2017 and by 0.95% in May 2017.
- “Energy” inflation (weighted at 5.50% of the total index) declined month-to-month in July 2017 by 0.31% (-0.31%), having dropped by 0.52% (-0.52%) in June 2017 and by 3.03% (-3.03%) in May. Seasonal adjustments were negative, with unadjusted monthly energy inflation unchanged at 0.00%. Unadjusted and year-to-year, July 2017 energy prices gained 4.13%, the same annual growth as in June 2017, but down from 7.65% in May 2017.
- “Less foods and energy” (“Core” goods) monthly inflation (weighted at 22.91% of the total index) declined by 0.09% (-0.09) in July 2017, offsetting 0.09% monthly gain in June and versus 0.09% also in May. Seasonal adjustments were positive for monthly core inflation, with unadjusted monthly inflation down by 0.18% (-0.18%). Unadjusted and year-to-year, July 2017 slowed to 1.90%, versus an annual gains of 2.08% in June 2017 and 2.17% in May 2017.

Final Demand Services (weighted at 64.12% of the Aggregate Index). Headline monthly Final Demand Services inflation declined by 0.18% (-0.18%) in July 2017, offsetting the gain of 0.18% in June and versus a gain of 0.27% in May. The overall seasonal-adjustment impact on headline July services inflation was negative, with an unadjusted monthly decline of 0.09% (-0.09%). Year-to-year, unadjusted July 2017 services inflation slowed to 1.79%, from gains of 1.88% in June 2017 and 2.07% in May 2017.

The headline monthly changes by major component for July 2017 Final Demand Services inflation:

- “Services less trade, transportation and warehousing” inflation, or the “Other” category (weighted at 38.87% of the total index), was the only major sector (other than the minimally-weighted construction sector) to have shown positive inflation in the month. Month-to-month inflation here rose by 0.18% in July 2017, following a gain of 0.27% in June and a decline of 0.09% (-0.09%) in May. Seasonal-adjustment impact on the adjusted July detail was negative, where the unadjusted monthly reading had been for a gain of 0.27%. Unadjusted and year-to-year, July 2017 "other" services inflation was up by 2.07%, having gained 2.17% in June 2017 and 2.18% in May 2017.

- "Transportation and warehousing" inflation (weighted at 4.99% of the total index) fell in July 2017 by 0.78% (-0.78%) month-to-month, having gained 0.09% in June and having declined by 0.52% (-0.52%) in May. Seasonal adjustments were negative for the headline July reading, versus an unadjusted monthly drop of 0.69% (-0.69%). Unadjusted and year-to-year, July 2017 transportation inflation was up by 1.05%, having risen by 2.20% in June 2017 and by 2.22% in May 2017.
- "Trade" inflation (weighted at 20.26% of the total index) declined month-to-month in July 2017 by 0.52% (-0.52%), having declined by 0.17% (-0.17%) in June and having gained by 1.14% in May, reflecting parallel shifts in margins, which were dampened by rising prices (see the prior *Inflation That Is More Theoretical than Real World* section). Seasonal adjustments had a positive impact here, where the unadjusted monthly change was a steeper decline of 0.61% (-0.61%). Unadjusted and year-to-year, July 2017 trade inflation rose to an annual gain of 1.42%, versus 1.14% in June 2017 but was down versus 2.03% in May 2017.

Final Demand Construction (weighted at 2.07% 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 rose by 1.21% in July 2017, versus monthly gains of 0.17% in June and 0.09% in May. The impact of seasonal factors on the July reading was neutral, as usual, where the unadjusted monthly gain also was 1.21%. 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*.

On an unadjusted basis, year-to-year construction inflation rose by 3.17% in June 2017, versus 1.22% in June 2017 and 1.05% in May 2017. For the first time recent memory, the PPI annual change has moved closer to the estimates of private surveying and other government estimates (GDP deflators), which usually show much higher construction-related inflation than the PPI, by an order of magnitude of a couple of hundred basis points. Annual inflation in those measures, however also appears to be on the rise. 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 (see also prior *Commentary No. 903*).

PPI-Inflation Impact on Pending Reporting of July 2017 New Orders for Durable Goods. As to the upcoming reporting of July 2017 New Orders for Durable Goods, monthly inflation (reported only on a not-seasonally-adjusted basis) for new orders for manufactured durable goods in July 2017 was unchanged at 0.00%, having gained 0.06% in June and having been unchanged at 0.00% in May. Year-to-year annual inflation continued to back off to 1.56% in July 2017, versus 1.69% in June 2017 and 1.75% in May 2017. July 2017 durable goods orders (both nominal and real) will be reported and calculable on August 25th, with coverage in the ShadowStats *Commentary No. 906* of that date.

HYPERINFLATION WATCH

A L E R T

Faltering Economic Activity and Mounting Domestic- and Global-Political Instabilities Should Begin to Coalesce into a Massive Financial-Market Cyclone

U.S. Dollar Has Turned Down Year-to-Year

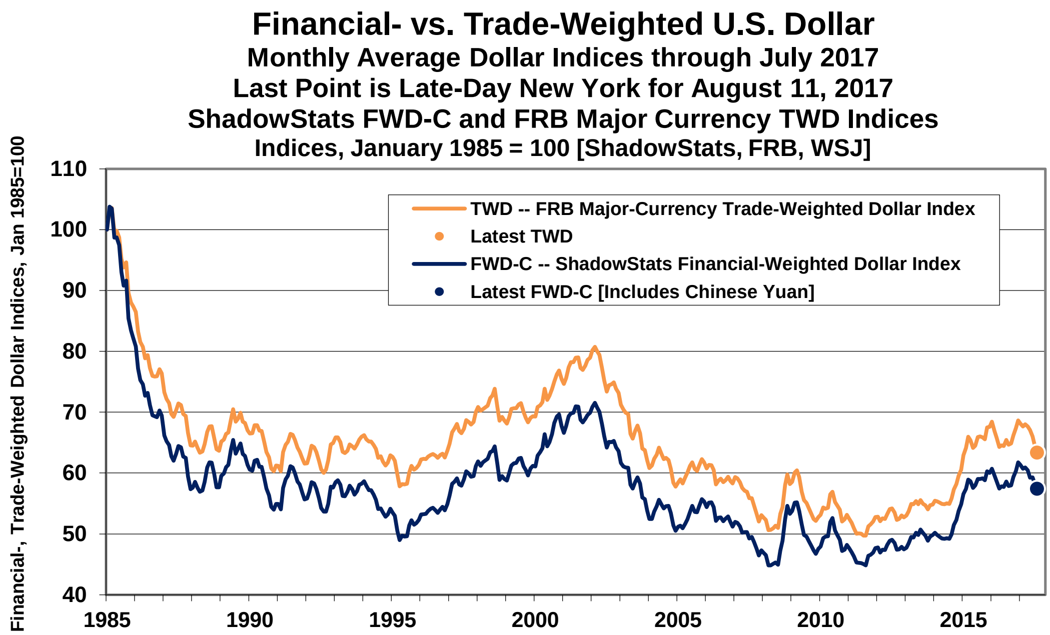
Watch for Negative Surprises in Headline July Economic Numbers. In the context of today's (August 14th) *Opening Comments*, a major flight from the U.S. dollar looms, with massive dollar selling likely to trigger a coincident massive sell-off in the U.S. stock market, heavy selling in the U.S. credit markets, surging oil and energy prices and domestic inflation. Where the proximal trigger for the dollar debacle likely will result from mounting market anticipation of a shift in Fed policies back towards U.S. dollar debasement, that debasement and implications for rapidly-rising inflation also should spike gold and silver prices, reflecting the traditional store-of-wealth characteristics of both of those hard assets.

The relative strength in the U.S. Dollar is impacted heavily by relative U.S. interest rates, political stability, economic activity, trade balance and fiscal stability, among other factors, relative to a given currency. At present all those issues weigh against the U.S. currency, versus most other major currencies, but the greatest concern for the currency markets is pending policy out of the Federal Reserve's Federal Open Market Committee (FOMC). Currency market expectations of rising U.S. interest rates and the Fed's pending liquidation of securities purchased during the expansive phase of Quantitative Easing are the primary underpinnings of current, relative strength in the U.S. dollar. Other issues impacting the dollar are touched upon here, shortly.

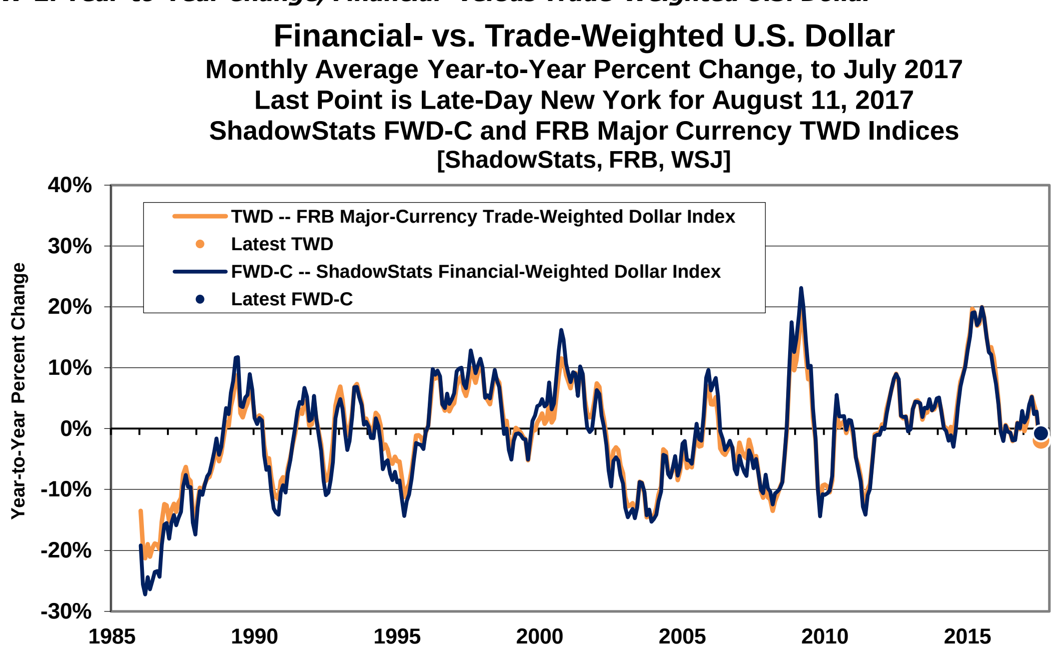
Who Wants a Strong U.S. Dollar? Why is dollar strength important to the U.S. financial markets? The U.S. currency's perceived, sustainable strength draws foreign capital both from private- and sovereign/central-bank investors into the U.S. equity and credit markets, very much including investment in U.S. Treasury securities, of which roughly $2.5 trillion worth are held currently by the Federal Reserve, versus declining holdings outside the United States. Nonetheless, the U.S. dollar's recent strength (and sharp rally in 2014), largely orchestrated by the Fed, also has been key to reducing oil prices (gasoline prices), keeping headline domestic inflation artificially low. A collapse in the U.S. dollar would cause a flight of funds from the dollar, savaging in particular the U.S. equity and credit markets, along with spiking domestic inflation.

As an early indication of looming trouble, the broad value of the U.S. dollar has moved lower in recent months, as measured against weighted-averages for relative trade volume with the U.S. (trade-weighted) or relative currency-trading volume versus the U.S. dollar in the global financial markets (financial-weighted), as reflected in *Graphs 1* and *2*. Shown there, the U.S. dollar generally trended lower after a sharp, post-election rally into January 2017, turning lower in April and May, with year-to-year growth turning negative in July 2017 and intensifying to the downside in August.

Graph HW-1: Financial- versus Trade-Weighted U.S. Dollar



Graph HW-2: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar



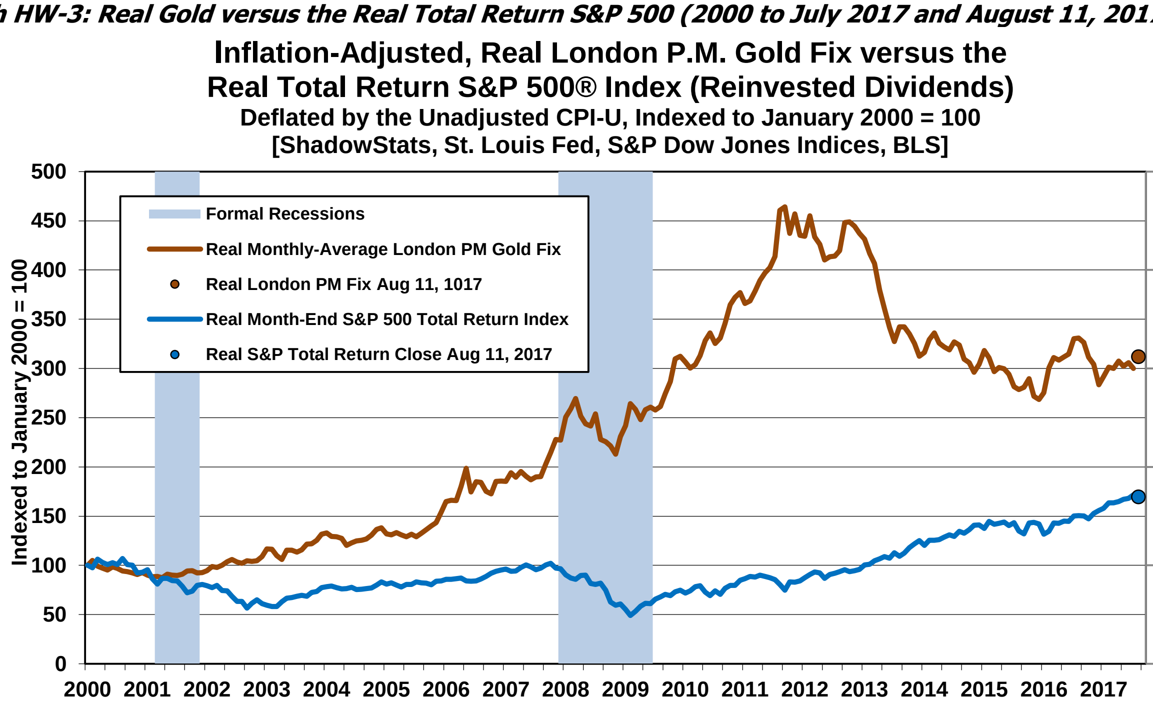
Also negatively impacting the dollar's strength is perceived, relative political stability. Continuing political discord in Washington (see *Special Commentary No. 888*) has prevented passage of meaningful economic-stimulus legislation, presumably desired by the U.S. electorate. Better-quality economic numbers not only show that the U.S. economy never recovered fully from its collapse into 2009, but also that subsequent low-level stagnation now has started into renewed downturn (see *Commentary No. 902-B*). The prospects there continue bleak for the dollar, with political stalemate in Congress exacerbating economic concerns, which, again, increasingly threaten the Federal Reserve's ability to raise rates and to begin reducing its holdings of securities, by the end of the year.

Fed Policies Are Failing. In theory, the dollar should have been propped by the Federal Reserve's recent rate hikes, but those actions have lost their effect, since prospective rate hikes and policy changes are more important to the currency markets than what already is in place. Increasingly, the Fed has lost credibility, where incoming economic data broadly have been weaker than consensus expectations. The weaker the data are, the less likely the Fed will be to continue hiking rates and to begin liquidating its holdings of securities purchased during Quantitative Easing, as promised.

Indeed, currently unfolding, weaker, headline business conditions likely will qualify as the "substantially adverse economic circumstances" that the FOMC has allowed as a trigger for renewed and expanded Quantitative Easing, with the June 14th rate hike likely the last one for some time. The recent series of rate hikes has provided the FOMC with a minimal policy cushion for increasingly difficult times ahead.

The U.S. central bank's primary concern remains the continuation and maintenance of a stable domestic banking system. While domestic economic stability and strength is an extremely important issue, it is secondary in the Fed's consideration to maintaining banking-system stability, strength and solvency. The big problem for the Fed remains that a weak economy stresses banking-system solvency issues. Expanded quantitative easing addresses banking-system liquidity and solvency, not economic growth.

Graph HW-3: Real Gold versus the Real Total Return S&P 500 (2000 to July 2017 and August 11, 2017)



Gold and Silver Remain the Best Hedges in the Difficult Times Ahead. Reflected in *Graph HW-3*, holding of physical gold has outperformed holding the S&P 500 and reinvesting related dividends, since the turn of the millennium. Although the relative performances there are mixed over the years, difficult times ahead likely will favor the holding of physical gold over stocks. While physical gold has been much maligned and often negatively manipulated by central banks and by some banking and Wall Street interests focused in other areas, it remains the best long-term, liquid hedge against inflation.

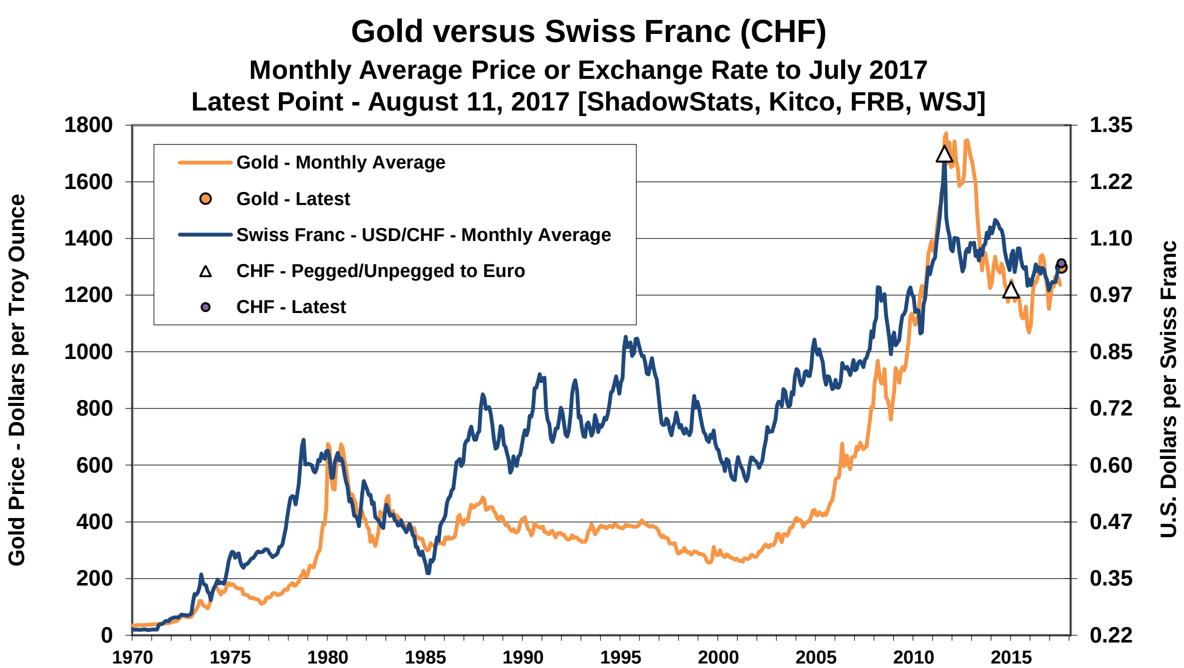
The accompanying plot shows the values, adjusted for CPI-U inflation, indexed to January 2000 = 100. Putting aside issues of the CPI understating inflation, as commonly experienced by the general populace, the S&P 500 with reinvested dividends did not top its real value of January 2000 meaningfully until 2013, while gold has been consistently above its real value of January 2000 since 2003.

The circumstances here and the general outlook remain as broadly outlined in [*No. 859 Special Commentary*]; currently shifting headlines only reflect the continued movement and evolution forward in time of the Fed's difficulties discussed in that missive. Increasingly, the U.S. dollar appears to have topped and the near-term gold price appears to have bottomed.

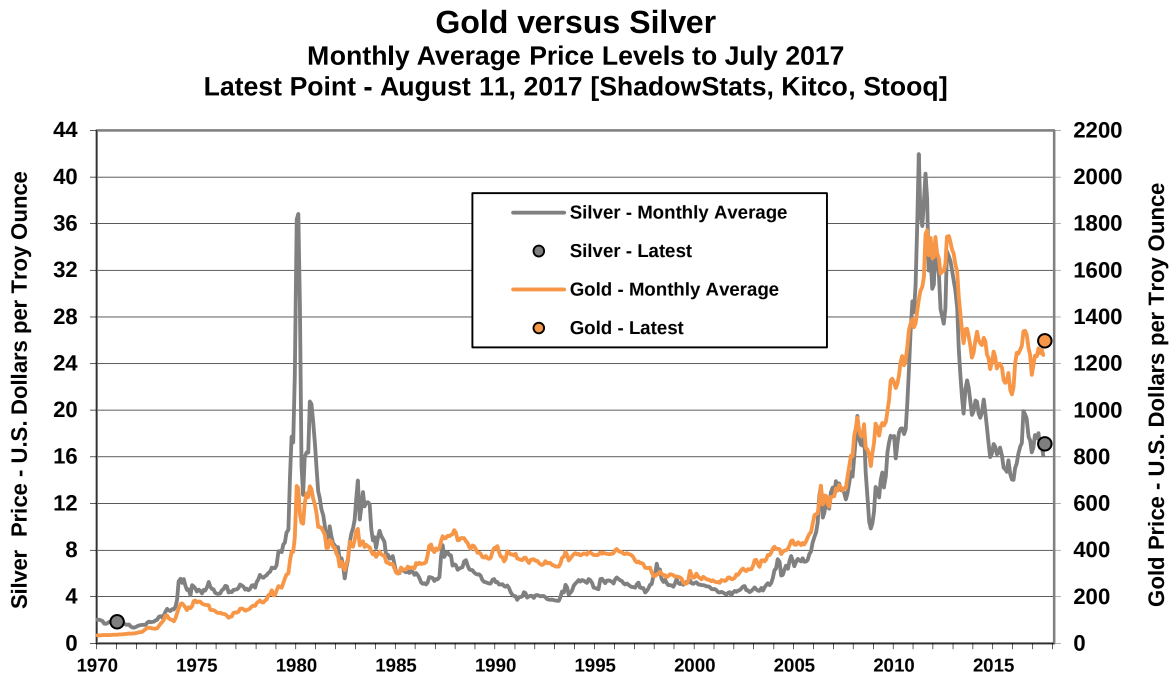
Risks from Upcoming Headline Economic Reporting. Discussed in the *Week, Month and Year Ahead* section, there are reasonably good chances of market-disappointing headline economic reporting in the next several days, including July Retail Sales (Tuesday), Housing Starts (Wednesday) and Industrial Production (Thursday). Whatever circumstance is in place on Thursday, August 17th, will be addressed in *Commentary No. 905* of that date.

Shown earlier were the updated U.S. dollar graphs, with monthly-average plots of prices covering the U.S. Dollar (*Graphs HW-1* and *HW-2*). Following are the updated gold graphs (*Graphs HW-4, HW-5* and *HW-6*). The August points on all the graphs reflect late-day New York prices for Friday, August 11th.

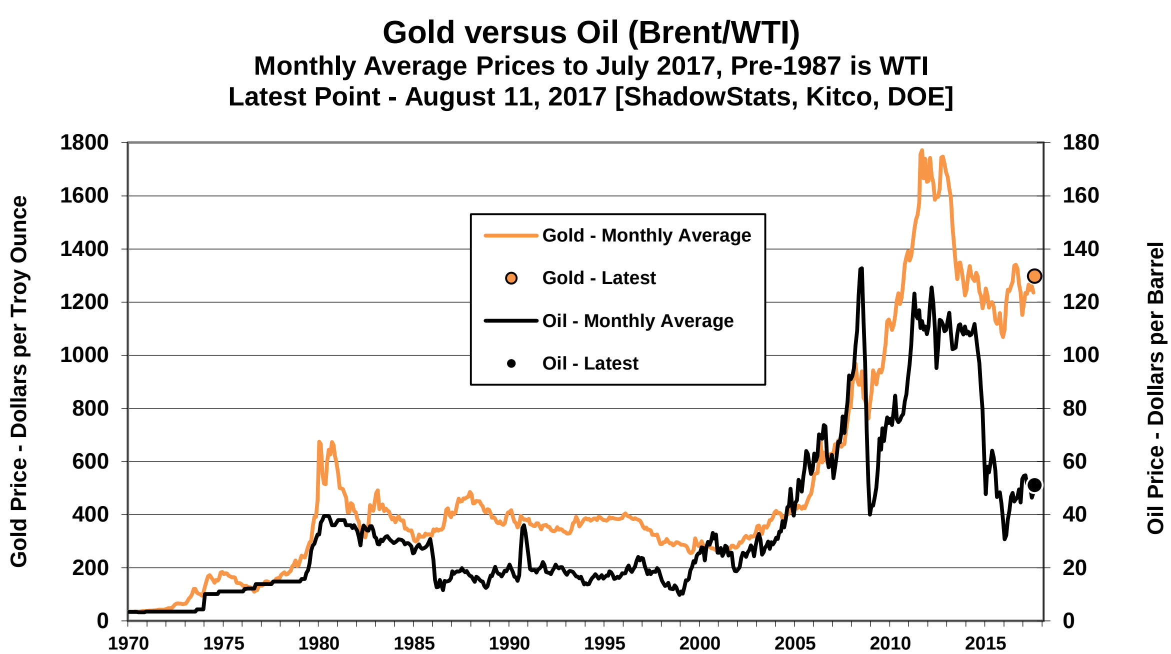
Graph HW-4: Gold versus the Swiss Franc



Graph HW-5: Gold versus Silver



Graph HW-6: Gold versus Oil



[The Consumer Liquidity Watch begins on the next page.]

CONSUMER LIQUIDITY WATCH

CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM.
[The Consumer Liquidity Watch *has been updated for June 2017 Consumer Credit Outstanding and for July 2017 Real Average Weekly Earnings.]*

Liquidity Stresses Mounted Amidst Faltering Optimism. The U.S. consumer faces continuing financial stress, increasingly reflected in the renewed softening of headline economic activity, including Real Retail Sales, Home Sales and impacted construction series and as reflected ultimately in affected broader-based economic series such as Industrial Production.

Liquidity Issues Limit Economic Activity. Severe and persistent constraints on consumer liquidity of the last decade or so drove economic activity into collapse through 2009, and those conditions have prevented meaningful or sustainable economic rebound, recovery or ongoing growth since. The limited level of, and growth in, sustainable real income, and the inability and/or unwillingness of the consumer to take on new debt have remained at the root of the liquidity crisis and ongoing economic woes.

These same pocket-book issues contributed to the anti-incumbent electoral pressures in the 2016 presidential race. The post-election environment showed a near-term surge in both the consumer confidence and sentiment measures to levels generally not seen since before the formal onset of the recession in 2002, let alone 2007. Yet, underlying liquidity conditions, economic reality and lack of positive actions out of the government to turn the economy meaningfully, all have continued to remain shy of consumer hopes. Not surprisingly, consumer optimism has begun to falter anew.

Including the various consumer income stresses discussed in *Special Commentary No. 888*, broad, underlying consumer-liquidity fundamentals simply have not supported, and still do not support a turnaround in general economic activity—a post "Great Recession" expansion—and broadly are consistent with a "renewed" downturn in that non-recovered economic activity. Indeed, never truly recovering post-Panic of 2008, limited growth in household income and credit have eviscerated and continue to impair broad, domestic U.S. business activity, which is driven by the relative financial health and liquidity of consumers. These underlying liquidity conditions and reality—particularly income and credit—remain well shy of consumer hopes and needs.

The combined issues here have driven the housing-market collapse and ongoing, long-term stagnation in consumer-related real estate sales and construction activity, and have constrained both nominal and real retail sales. Related, personal-consumption-expenditure and residential-construction categories accounted for 73.1% of the headline real (73.0% of nominal), second-quarter 2017 U.S. GDP.

With the better-quality economic indicators and underlying economic reality never having recovered fully from the collapse into 2009, consumers increasingly should pull back on consumption in the months ahead. Underlying reality is evident in more-meaningful economic indicators—not the GDP—irrespective of the transient, gimmicked boosts to, and current headline slowing in, that most worthless of economic series, discussed most recently in *Commentary No. 902-B*.

Consumer Optimism: July Consumer Confidence and Sentiment Measures Were Mixed. This detail incorporates the full-month reporting of July 2017 for the University of Michigan's Consumer Sentiment Index (Sentiment), updated July 28th, as well as the previously reported July 2017 reading of The Conference Board's Consumer-Confidence Index® (Confidence). Reflected in *Graphs CL-1* and *CL-2*, both Confidence and Sentiment rose in September 2016 and plunged in October, likely reflecting concerns as to the direction of the presidential race. Post-election, both measures rallied sharply, reflecting a surge in consumer optimism into early 2017. Both series appeared to have topped and pulled back in June, but the July Confidence number rebounded anew, albeit on top of a downwardly-revised reading for June, while the full-July Sentiment number continued to pull back, although it was revised minimally higher versus the advance-July estimate. Nonetheless, both the Confidence and Sentiment levels remained off their respective post-election, euphoric peaks of March 2017 (Confidence) and January 2017 (Sentiment).

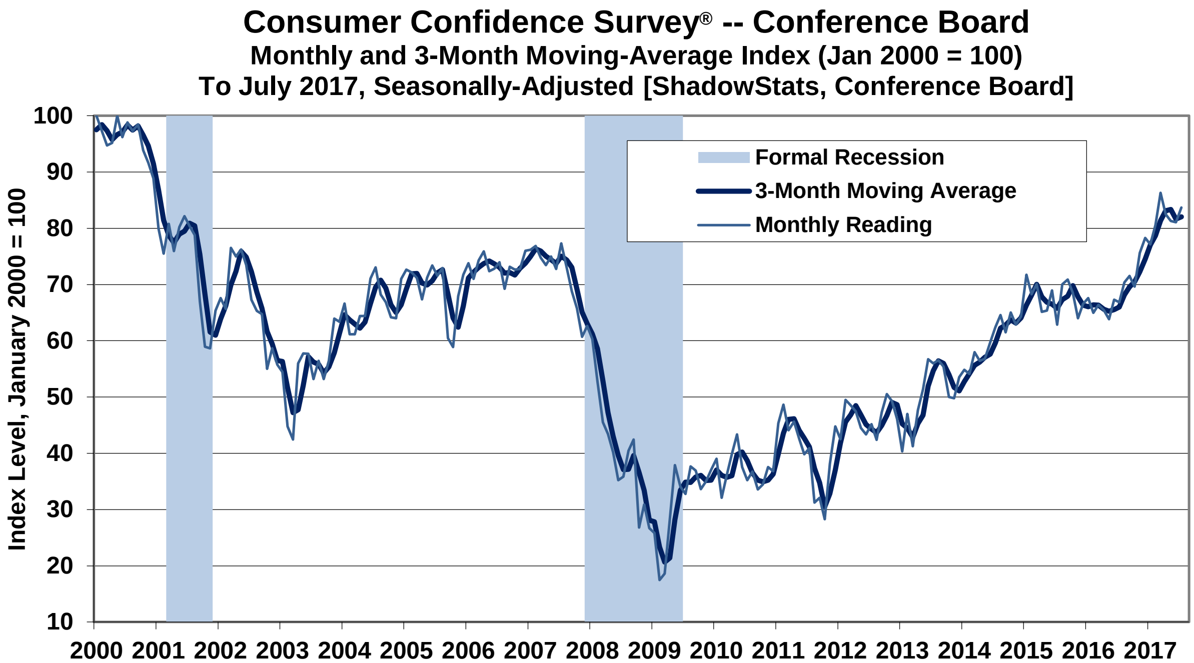
The Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph CL-1*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph CL-2*), again, both soared post-election, into early 2017, with Confidence booming into and topping in March and with sentiment booming into and topping in January 2017. The three-month moving averages in both series also had broken to pre-recession highs, with the Confidence hitting levels not seen since before the 2001 recession, but the moving averages also have begun to falter, although still at high levels.

Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CL-1* to *CL-3* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index® is set with 1985 = 100, while the University of Michigan's Consumer Sentiment Index is set with January 1966 = 100.

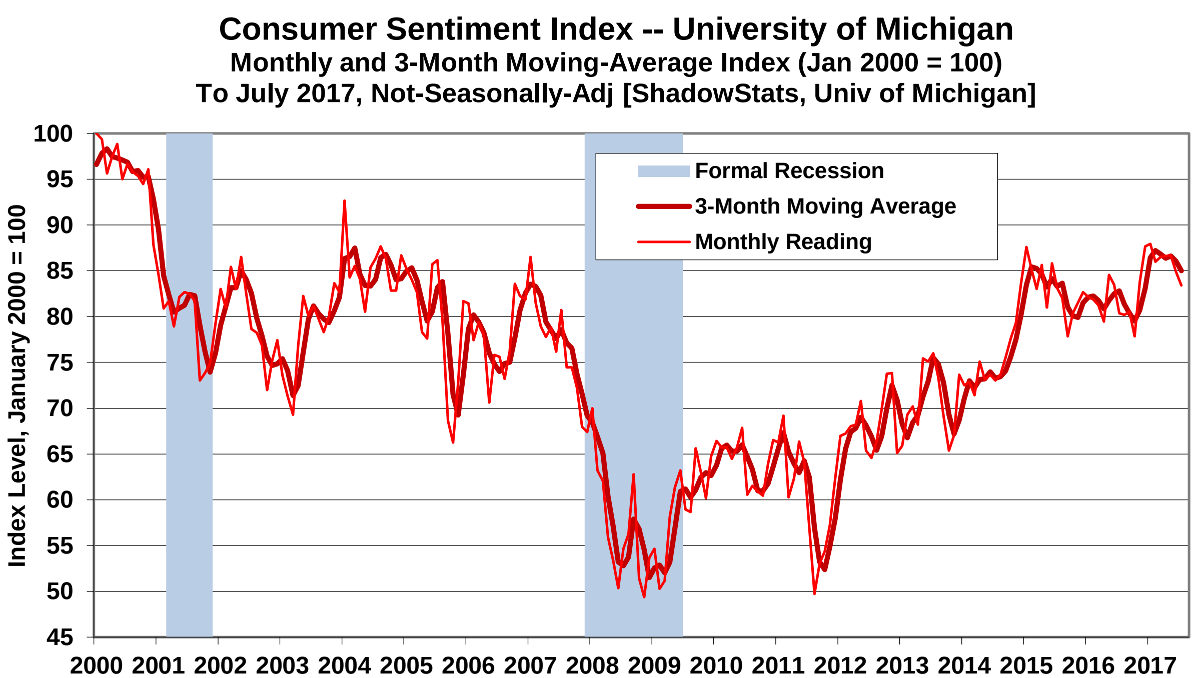
The Confidence and Sentiment series tend to mimic the tone of headline economic reporting in the press (see discussion in *Commentary No. 764*), and often are highly volatile month-to-month, as a result. With what should become increasingly-negative, unstable and uncertain headline financial and economic reporting in the months ahead—beyond the early change-in-government euphoria—continued, successive negative hits to both the confidence and sentiment readings remain increasingly likely in the near future.

Smoothed for irregular, short-term volatility, the two series still generally had held at levels seen typically in recessions, until the post-2016 election circumstance. Suggested in *Graph CL-3*—plotted for the last 47 years—the latest readings of Confidence and Sentiment recently have recovered levels seen in periods of normal, positive economic activity of the last four decades, with their six-month moving averages at levels last seen going into the 2001 recession, although they appear to be topping out. Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for second-and third-quarter 2015 and for third-quarter 2016. Beyond having happy feelings about the future, consumers still need actual income, cash-in-hand or credit in order to increase their spending.

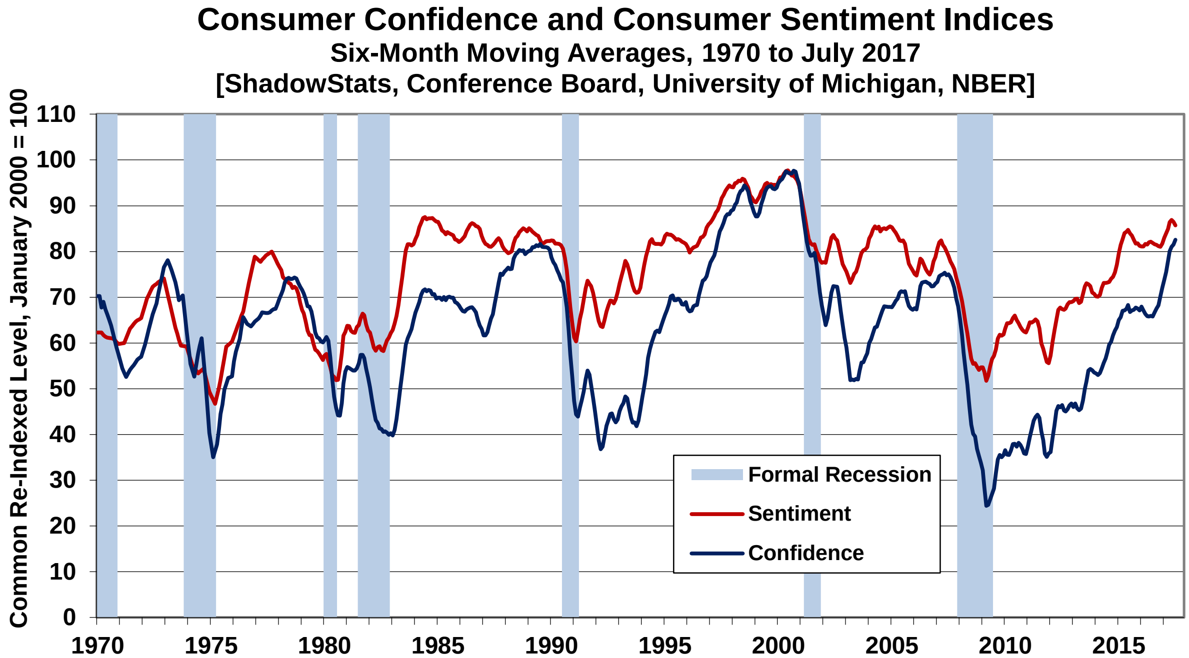
Graph CL-1: Consumer Confidence (2000 to 2017)



Graph CL-2: Consumer Sentiment (2000 to 2017)



Graph CL-3: Comparative Confidence and Sentiment (6-Month Moving Averages, 1970 to 2017)

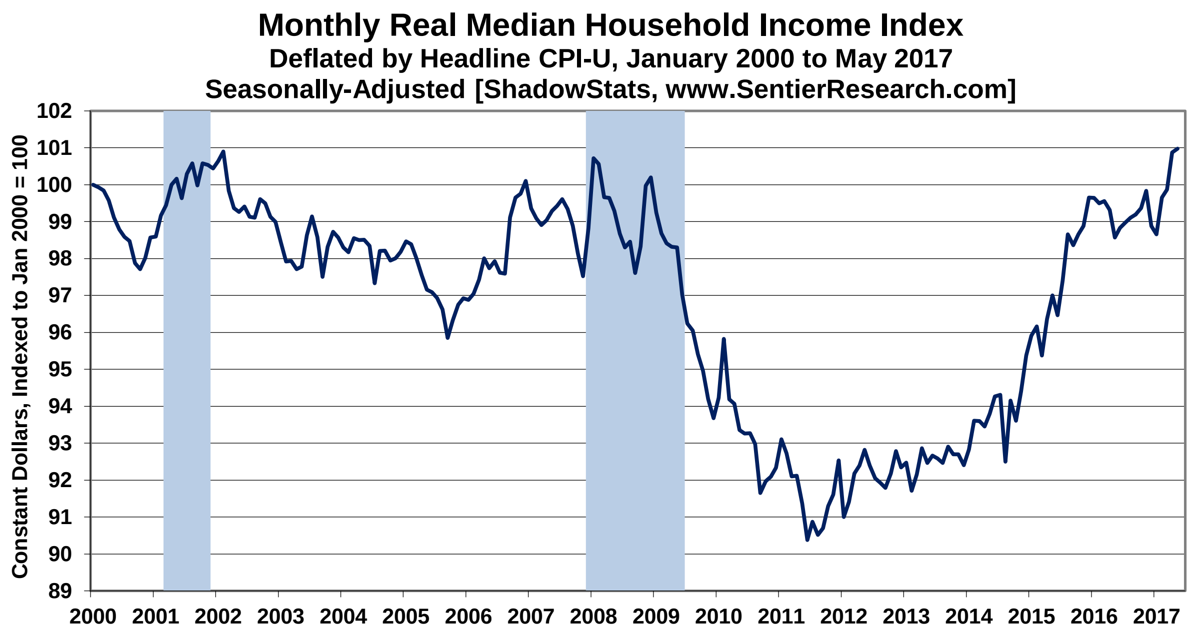


Consumer Income: May 2017 Real Median Household Income Was Statistically Unchanged, Despite a Boost from Falling Gasoline Prices. Previously discussed in *General Commentary No. 894*, and in the contexts of continued, faltering gains in post-election consumer optimism, and inflation-adjusted activity boosted by declining headline Consumer Price Index (CPI-U) inflation (weakened by seasonally-adjusted gasoline price declines), May 2017 Real Median Monthly Household Income was "statistically unchanged" (a statistically-insignificant monthly gain of 0.10%), as reported by www.SentierResearch.com. That followed a statistically-significant monthly gain of 1.00% in April 2017. As shown in *Graph CL-4*, such enabled May 2017 real monthly median household income to hold a level regained last month and otherwise last seen fifteen years ago, in February 2002. Year-to-year real median household income rose to 2.44% in May 2017, the highest level since June 2016, following an annual gain of 1.57% in April 2017 (see *Graph CL-5*).

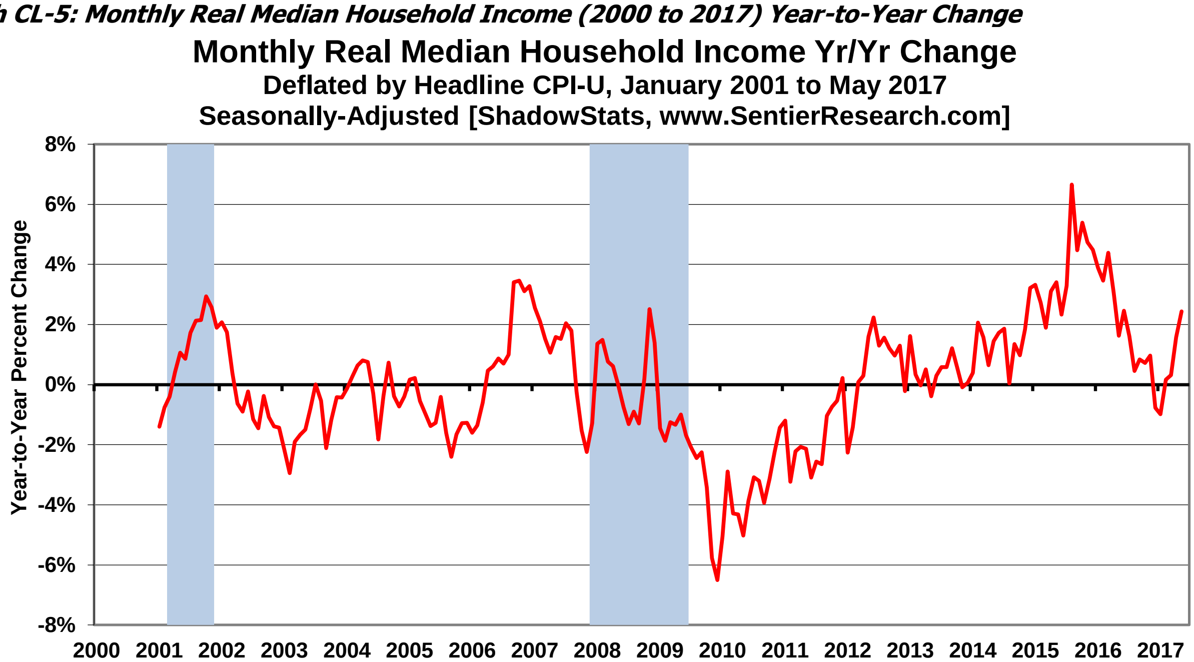
Where real median income plunged into the headline trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new lows, hitting bottom in 2011. The income series then held in low-level stagnation, until collapsing gasoline prices and the resulting negative CPI-U inflation drove a post-2014 uptrend in the inflation-adjusted monthly income index. The index approached pre-recession levels in the December 2015 reporting, but it remained minimally below the pre-recession highs for both the formal 2007 and 2001 recessions until recent months. Real median household income should resume turning down anew, as headline pace of monthly consumer inflation picks up anew, perhaps as early as the July CPI.

Nonetheless, the recent "rebound" in the series still has left consumers financially strapped. Where lower gasoline prices had provided some minimal liquidity relief to the consumer, indications are that any effective extra cash largely has been used to help pay down unsustainable debt or other obligations, not to fuel new consumption. Except for mixed gyrations in first-half 2017, the effects of changing gasoline prices in the headline CPI-U generally had reversed, pushing headline consumer inflation higher and beginning to push real income lower.

Graph CL-4: Monthly Real Median Household Income (2000 to 2017) Index, January 2000 = 100

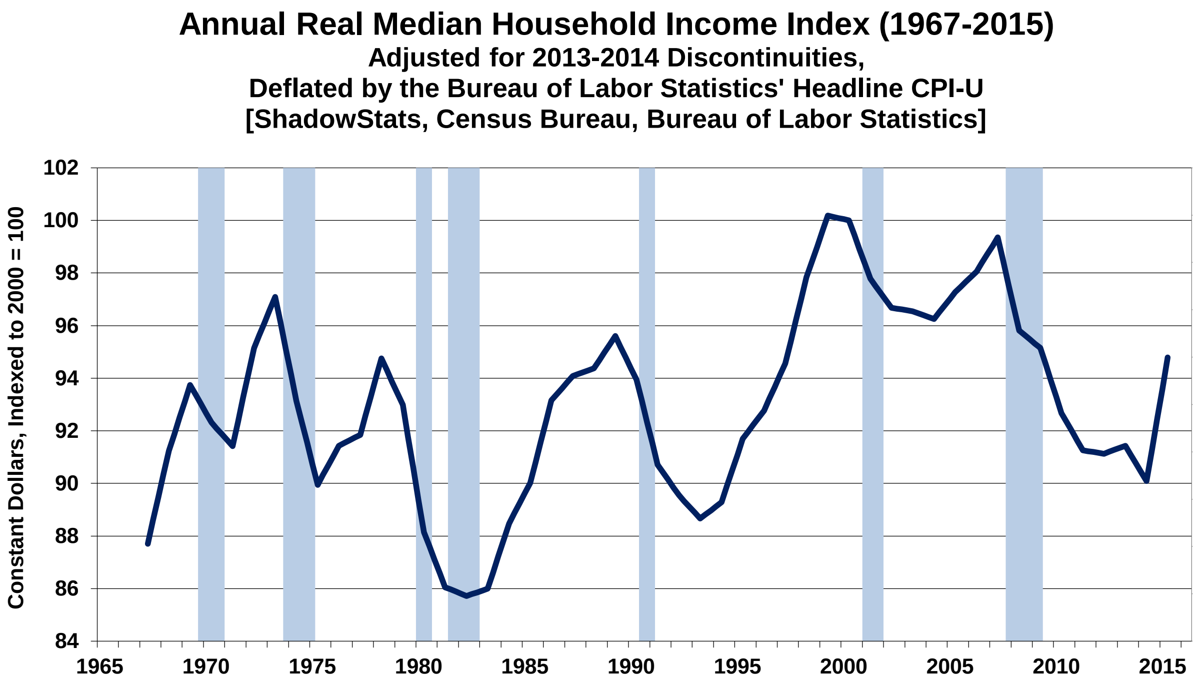


Graph CL-5: Monthly Real Median Household Income (2000 to 2017) Year-to-Year Change



This measure of real monthly median household income generally can be considered as a monthly version of the annual detail shown in *Graph CL-6*, which was updated ten months ago for 2015 detail (see the full analysis of the 2015 annual household income reporting in *Commentary No. 833*, including an analysis of annual detail on income variance or "inequality"). The relative jump seen in the headline annual 2015 median income, despite formal adjustment for discontinuities in the recent annual reporting, was due largely to series redefinitions, not due to a sudden change in consumer liquidity, other than as tied to the collapse in gasoline prices and a related spike in the inflation-adjusted numbers. The level of real annual median household income for 2015, not only was below that seen at the purported trough of the economic collapse into 2009, but also it was below levels seen in the early-1970s and the late 1980s.

Graph CL-6: Annual Real Median U.S. Household Income (1967 to 2015)



Special Note**:** Accompanying the release of the May 2017 data by Sentier Research was this Notice of Final Report:

> Dear Friends, This will be our final report in the monthly series of median household income. We can no longer afford to provide these estimates given our current level of resources. We believe, as we hope you do, that these estimates provided an important new dimension regarding the economic situation of American households as we slowly climbed out of the Great Recession. The story continues but we must move on. Our hope is that someone will be able to continue this work. Should you or someone you know be interested please contact us. Thanks to all of you for your kind support.. John and Gordon

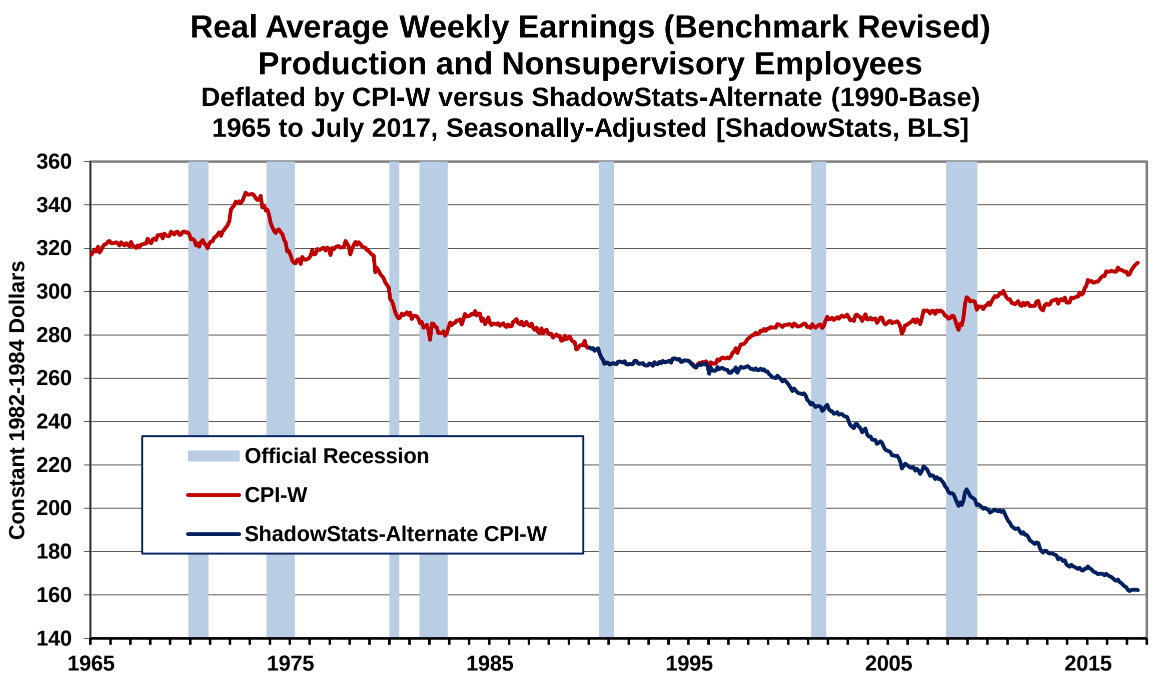
ShadowStats hopes a circumstance will unfold that enables continued reporting of this extraordinarily valuable and timely indicator of consumer liquidity. Gordon Green and John Coder, the authors of the monthly report, both are former senior officials at the U.S. Census Bureau and have a unique understanding of the underlying monthly data. The Census Bureau publishes a broadly-similar series on an annual basis, but with an extraordinary time lag. The 2016 Census annual detail is due for release and publication in September 2017. Again, see *Commentary No. 833* for the 2015 detail published in 2016.

Differences in the Monthly versus Annual Median Household Income. The general pattern of relative historical weakness also has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in preceding *Graph CL-6*, with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 annual number still holding below that seen when the collapsing economy hit its purported trough in 2009. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels. Still, the monthly and annual series remain broadly consistent, although based on separate questions within the monthly Consumer Population Series (CPS), as conducted by the Census Bureau.

Where Sentier has used monthly questions surveying current annual household income, the headline annual Census Bureau detail is generated by a once-per-year question in the March CPS survey, as to the prior year's annual household income. The Median Household Income surveying results are broadly consistent with Real Average Weekly Earnings.

Real Average Weekly Earnings—July 2017—Month-to-Month Real Earnings Rose. For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion in today's *CPI* section of the *Reporting Detail*), the regularly-volatile real average weekly earnings were up by 0.18% in July 2017 (as reported by the Bureau of Labor Statistics on August 11th). That was against a downwardly-revised 0.27% monthly gain in June and a revised 0.34% gain in May. The adjusted July 2017 year-to-year real change slowed to 0.71%, versus a revised 1.14% in June 2017 and a revised 0.89% gain in May 2017.

Graph CL-7: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date



Based solely on volatile initial reporting for July 2017, the early-trend for real third-quarter 2017 activity was for an annualized real quarterly gain of 1.89%. Second-quarter 2017 activity reflected a revised, annualized real quarterly gain of 4.49%, following unrevised contractions in first-quarter 2017 of 1.13% (-1.13%), in fourth-quarter 2016 of 1.36% (-1.36%), third-quarter 2016 growth of 1.48%, a second-quarter 2016 contraction of 0.11% (-0.11%) and first-quarter 2016 annualized growth of 1.81%.

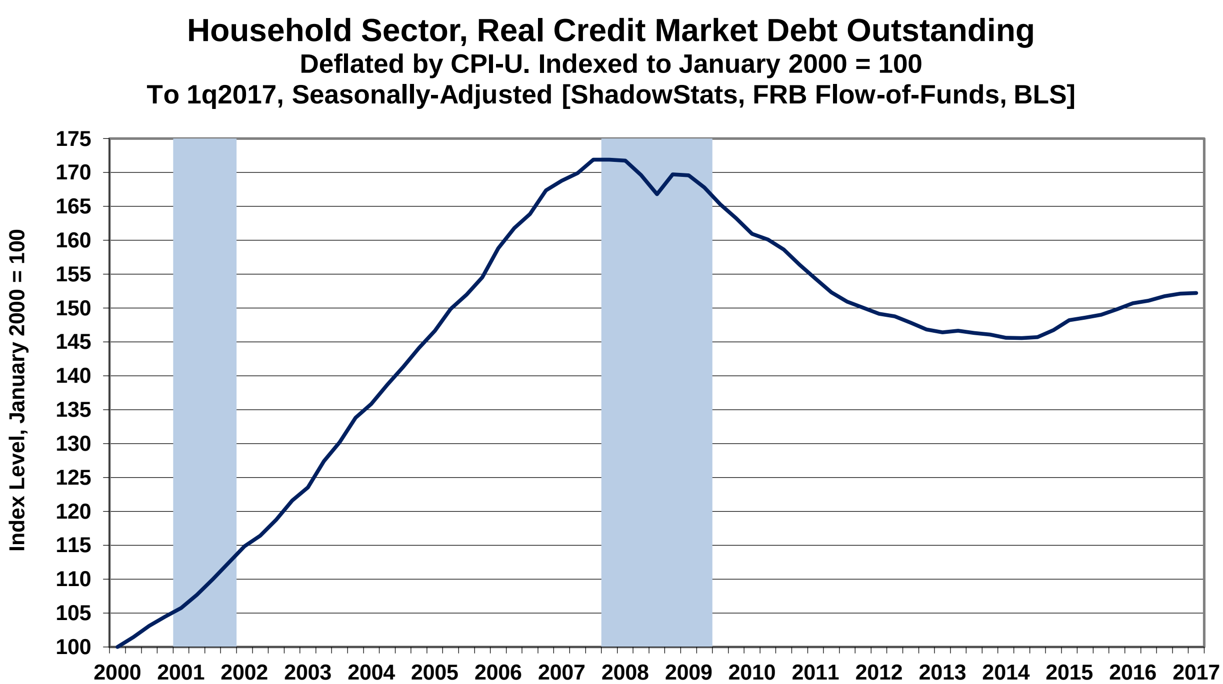
The early-trend for third-quarter 2017 year-to-year real earnings growth was 0.94%, while second-quarter 2017 earnings rose by a revised 0.84%, following an unrevised annual contraction of 0.29% (-0.29%) in first-quarter 2017, the first annual or year-to-year quarterly contraction since fourth-quarter 2012, when the real GDP effectively was unchanged quarter-to-quarter. The signal there highlighted financial stresses on the consumer and major downside risk to headline real GDP reporting.

The 2015 rally in real annual income and the subsequent slowdown in latter 2016 and pickup in 2017 pickup all were tied and continue to be tied directly to the impact of irregularly-collapsing/rising gasoline prices, with subsequent rebound/decline in inflation-adjusted income.

Graph CL-7 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.

Consumer Credit: Lack of Meaningful Real Consumer Credit Growth Remains an Economic Constraint. The final four graphs on consumer conditions address consumer borrowing. Where debt expansion can help make up for a shortfall in income growth, adequate expansion of consumer debt, which would help fuel growth in personal consumption, has been lacking.

Graph CL-8: Household Sector, Real Credit Market Debt Outstanding (2000 through First-Quarter 2017)



Consider *Graph CL-8* of *Household Sector, Real Credit Market Debt Outstanding*. The level of real household debt declined in the period following the Panic of 2008, reflecting loan defaults and reduced banking lending, and it has not recovered fully, based on the Federal Reserve's flow-of-funds accounting through first-quarter 2017. Household Sector, Real Credit Market Debt Outstanding in first-quarter of 2017 still was down by 11.5% (-11.5%) from its pre-recession peak of third-quarter 2007, the same as in fourth-quarter 2016.

The series includes mortgages, automobile and student loans, credit cards, secured and unsecured loans, etc., all deflated by the headline quarterly CPI-U. The level of real debt outstanding has remained stagnant for several years, reflecting, among other issues, lack of normal lending by the banking system into the regular flow of commerce. The slight upturn seen in the series through 2015 and into 2016 was due primarily to gasoline-price-driven, negative CPI inflation, which continued to impact the system through second-quarter 2016. Current activity also has reflected continued relative strength from student loans, as shown in the *Graphs CL-9* to *11*.

The ShadowStats analysis usually focuses on the particular current weakness in monthly levels of consumer credit, net of what has been rapidly expanding government-sponsored student loans. Where detail on that series is only available not-seasonally-adjusted, the following graphs are so plotted.

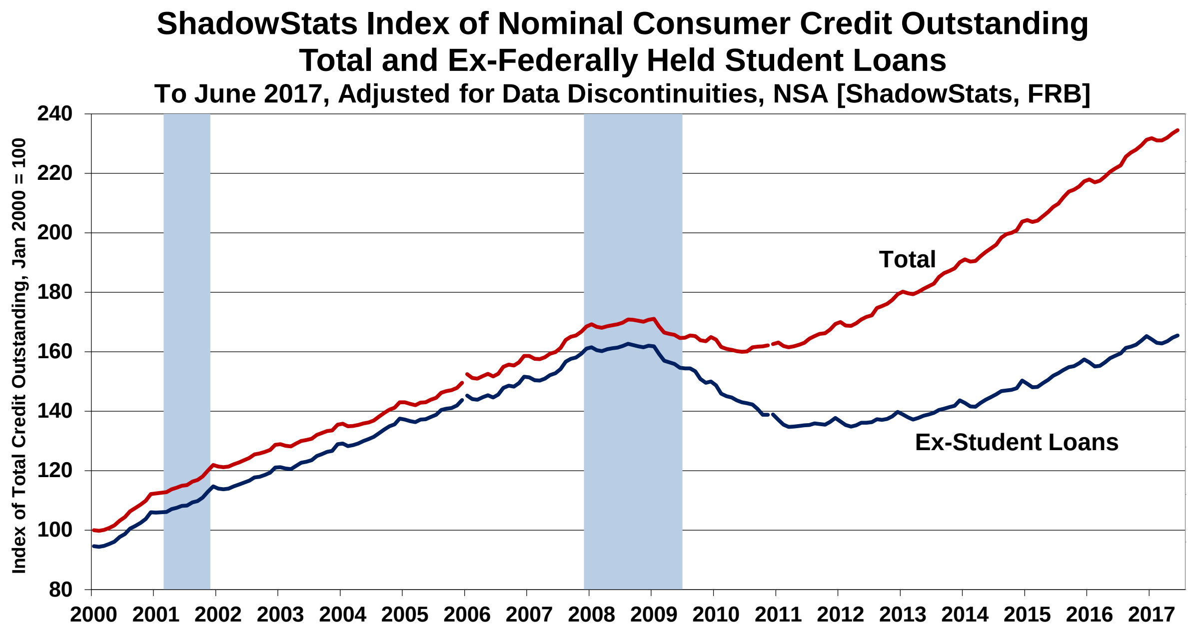
Shown through the latest reporting (June 2017), *Graph CL-9* of monthly Consumer Credit Outstanding is a subcomponent of *Graph CL-8* on real Household Sector debt. Where *Graph CL-9* reflects the nominal reporting, not adjusted for inflation, inflation-adjusted real activity for monthly Consumer Credit Outstanding is shown in terms of both level (Graph CL-10) and year-to-year change (*Graph CL-11*).

Post-2008 Panic, growth in outstanding consumer credit has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption or housing growth. Although in slow uptrend, the nominal level of Consumer Credit Outstanding (ex-student loans) has not recovered since the onset of the recession. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis, with the pattern of monthly levels during one year reflecting some regular, unadjusted seasonal dips or jumps.

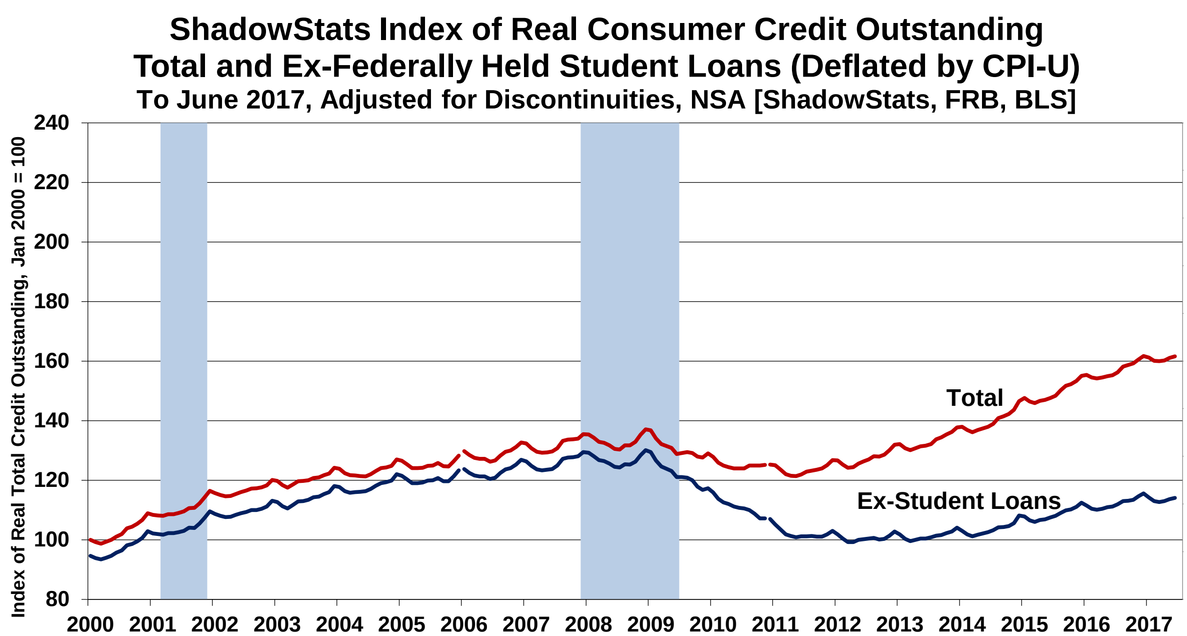
Adjusted for inflation, the lack of recovery in the ex-student loan area is more obvious. Although the recent monthly dips in the not-seasonally-adjusted consumer credit reflect a seasonal pattern, the pace of year-to-year growth continues to slow, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in June 2017 (released August 7th) was down from its December 2007 pre-recession peak by 12.3% (-12.3%). Year-to-year growth in *Graph CL-11* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

[Graphs CL-9 to CL-11 begin on the next page.]

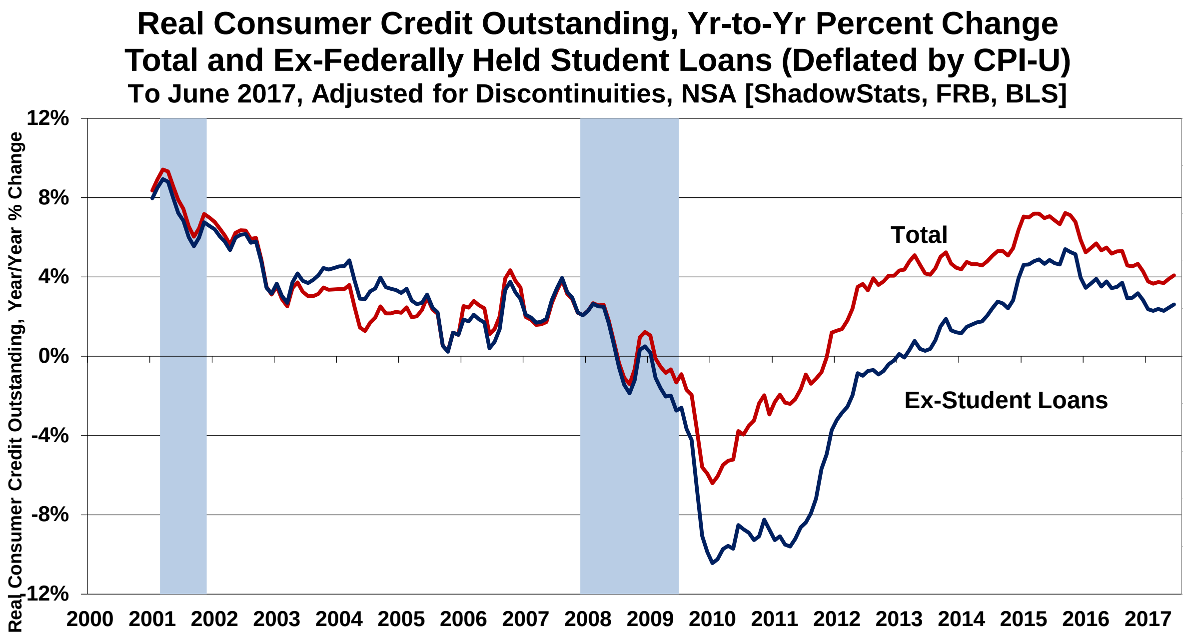
Graph CL-9: Nominal Consumer Credit Outstanding (2000 to 2017)



Graph CL-10: Real Consumer Credit Outstanding (2000 to 2017)



Graph CL-11: Year-to-Year Percent Change, Real Consumer Credit Outstanding (2000 to 2017)



WEEK, MONTH AND YEAR AHEAD

Exacerbated by Deteriorating Domestic and Global Political Circumstances, Continued Softening of Underlying Economic Activity Should Compromise Fed Policies, Pummel the Dollar, Boost the Price of Gold and Foster Other Financial-Market Tumult. Despite relatively-positive headline activity in initial reporting of second-quarter 2017 GDP and stronger-than expected labor-market data for July, underlying reality remains a weakening, seriously-impaired U.S. economy, as discussed in today's *Opening Comments* and *Hyperinflation Watch*. Noted in the *Pending Economic Releases* section, key economic releases this week are at high risk of disappointing market expectations, where weaker-than-expected reporting likely would intensify/accelerate a negative shift in market economic outlook.

With that circumstance threatening a shift in FOMC policy, combined with the mounting political discord discussed in today's *Hyperinflation Watch* (see also the *Opening Comments* of *Commentary No. 901* and *Special Commentary No. 888*), odds continue to mount for financial-market turmoil in the near future, particularly as would be triggered by a market-related, heavy sell-off in the U.S. Dollar. Again, this circumstance is reviewed and updated in the *Hyperinflation Watch*, the detail of which shortly will be incorporated into this *Week, Month and Year Ahead* section. The balance of this text has been updated minimally from prior regular *Commentary No. 903*, other than for the *Pending Releases* section, which always is updated for the week ahead.

Irrespective of the GDP benchmarking and the heavily-gimmicked July labor numbers discussed in *Commentary No. 902-B* and *Commentary No. 903*, broad economic activity never has recovered fully recovered from its crash into 2009, and it has started to turn down anew. As explored previously in the *Hyperinflation Watches* of *Commentary No. 899* and *General Commentary No. 894*, and further to the *Opening Comments* and *Hyperinflation Watch* of *Commentary No. 892*, headline economic reporting during June, July and early August of 2017, has shown a marked downturn versus consensus forecasts. While these circumstances usually signal an unfolding, major downshift in underlying economic reality, at present, they also forewarn of a potential shift in FOMC activity. Where such an event remains well removed from consensus expectations, at this time, in terms of Fed policy, that would mean a cessation of incremental rate hikes and a shift back towards expanded quantitative easing.

Immediate effects of such a policy change likely would include a massive sell-off in the U.S. dollar, which otherwise has been propped by recent FOMC rate hikes and continual jawboning for same. In parallel, heavy selling in the U.S. equity and credit markets would follow. As consensus economic forecasts have begun to soften, so too has the U.S. dollar exchange rate, while gold prices generally have firmed.

The circumstances here and the outlook still remain as broadly outlined in *No. 859 Special Commentary*; currently shifting headlines only reflect the continued movement and evolution forward in time of the Fed's difficulties discussed in that missive.

The problem for the Federal Reserve remains that faltering domestic economic activity stresses banking-system solvency. Aside from formal obligations of the Fed to maintain healthy domestic economic and inflation conditions, the central bank's primary function (in practice) always has been to keep the banking system afloat. The near-absolute failure of that function in 2008 remains the primary ongoing and unresolved problem for the Fed, and it continues as one of the ongoing primary issues preventing the return of U.S. economic activity to normal functioning. Contrary to the recent purported headline comments of "not in our lifetime" by Federal Reserve Chair Janet Yellen, the continued unfolding of "unexpected" economic deterioration suggests that the next major systemic financial crisis is likely to break in the next several months.

Separately, recent benchmark revisions to Construction Spending (see *Commentary No 897*), the Trade Deficit (*Commentary No. 890*), Industrial Production (*Commentary No. 877*), Manufacturers' Shipments (*Special Commentary No. 888*), Housing Starts (*Commentary No. 887*) and Retail Sales (*Commentary No. 882*), and reporting subsequent to the benchmarks, broadly have confirmed that historical activity in recent years has been overstated and/or that it is turning down anew, particularly in 2015, with the availability of better-quality historical detail. Again, that is despite recent near-term improvement in some headline details, such as the headline unemployment rate, which increasingly suffers from dysfunctional definitional and sampling issues, and the latest headline GDP detail.

The reporting patterns of the better-quality, less-gimmicked series likely will continue to weaken with increasing intensity in the weeks and months ahead. Adding a negative uncertainty to unfolding financial-market risks remains potential political surprise, discussed in *Special Commentary No. 888*. Otherwise, the broad outlook has not changed.

Reflected in common experience, actual U.S. economic activity generally continues in stagnation or downturn, never having recovered its level of pre-economic-collapse (its pre-2007-recession peak), while the latest GDP reporting shows an otherwise unconfirmed economic expansion of 13.5%.

Discussed in *No. 859 Special Commentary*, the Trump Administration continues to face extraordinarily difficult times, but has a chance to turn the tide on factors savaging the U.S. economy and on highly negative prospects for long-range U.S. Treasury solvency and stability. Any forthcoming economic stimulus faces a nine-month to one-year lead-time, once in play, before it meaningfully affects the broad economy. Increasing delays from political discord continue to push targeted programs back in time. Needed at the same time are a credible plan for bringing the U.S. long-term budget deficit (sovereign solvency issues) under control and action to bring the Federal Reserve under control and/or to reorganize the banking system. These actions broadly are necessary to restore domestic-economic and financial-system tranquility (see *No. 859*), but they cannot happen without the meaningful participation and cooperation of Congress. The financial crisis at hand likely will break well before the 2018 Congressional Election will have a chance to stabilize the outlook for economic policy objectives.

No. 859 Special Commentary updated the post-election, near-term economic and inflation conditions, including general economic, inflation and systemic distortions, which had evolved out of the Panic of 2008, have continued in play and, again, need to be addressed by the Trump Administration and Congress (see also the *Hyperinflation Watch* of *Commentary No. 862* and *Commentary No. 869*).

Contrary to the official reporting of an economy that collapsed from 2007 into 2009 and then recovered strongly into ongoing expansion, underlying domestic reality remained and remains that the U.S. economy started to turn down somewhat before 2007, collapsed into 2009 but never recovered fully. While the economy bounced off its 2009 trough, it entered a period of low-level stagnation and then began to turn down anew in December 2014, a month that eventually should mark the beginning of a "new" formal recession (see *General Commentary No. 867*). Formal economic expansion does not begin until economic recovery breaks above its pre-recession high.

Coincident with and tied to the economic crash and the Panic of 2008, 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. Unwilling to admit its loss of systemic control, the Federal Reserve has made loud noises in the last year or so of needing to raise interest rates, in order to contain an "overheating" economy, but that "overheating" activity—never recognized by Main Street, U.S.A.—has been fading quickly. As this ongoing crisis evolves towards its unhappy end, the U.S. dollar ultimately should face unprecedented debasement with a resulting runaway domestic inflation.

Broad economic and systemic conditions are reviewed regularly, with the following *Commentaries* of particular note: *Commentary No. 902-B*, *General Commentary No. 894*, *Special Commentary No. 885*, *Commentary No. 869*, *No. 859 Special Commentary*, *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 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*.

Recent Commentaries. *[Listed here are* Commentaries *of the last month, plus recent* Special Commentaries *and others covering a variety of issues, including annual benchmark revisions, back through the beginning of 2017. Pease Note: Complete ShadowStats archives back to 2004 are found at www.ShadowStats.com (left-hand column of home page).]*

Commentary No. 903 (August 7, 2017) discussed new signals of economic deterioration in terms of political and FOMC considerations, along with headline coverage of the July labor data, M3 and The Conference Board Help Wanted OnLine®, and June trade deficit and construction spending.

Commentary No. 902-B (July 31, 2017) reviewed the 2017 annual benchmark revisions of GDP and related series, along with the "advance" estimate of second-quarter 2017 GDP.

Advance Commentary No. 902-A (July 28, 2017) provided an initial assessment and highlights of the first-estimate of Second-Quarter 2017, along with the accompanying annual benchmark revisions, more-fully reviewed in today's *Commentary No. 902-A.*

Commentary No. 901 (July 27, 2017) discussed possible financial-market impact on continuing political discord in Washington, and reviewed the June 2017 Cass Freight Index, New Orders for Durable Goods and New- and Existing Home Sales.

Commentary No. 900 (July 19, 2017) reviewed June 2017 New Residential Investment (Housing Starts and Building Permits), and previewed the upcoming annual GDP benchmark revisions and the coincident "advance" estimate of second-quarter 2017 GDP.

Commentary No. 899 (July 17, 2017) covered headline June 2017 Retail Sales, Industrial Production, the Consumer Price Index (CPI) and the Producer Price Index (PPI), along with a review of current circumstances affecting the markets, U.S. dollar, gold and silver and the FOMC.

Commentary No. 898 (July 7, 2017) covered the headline employment and unemployment detail for June 2017, along with the initial estimate of annual growth in the ShadowStats Ongoing M3 for June.

Commentary No. 897 (July 6, 2017) reviewed the headline May 2017 Construction Spending and the annual revisions to same, along the May Trade Deficit, and June The Conference Board Help Wanted OnLine® Advertising and the May Cass Freight Index™.

Commentary No. 896 (June 29, 2017) reviewed the third estimate of first-quarter 2017 GDP.

General Commentary No. 894 (June 23, 2017) reviewed unfolding economic, financial and political circumstances in the context of market expectations shifting towards an "unexpected" headline downturn in broad economic activity, along with headline details on May 2017 Real Median Household Income (Sentier Research) and New- and Existing-Home Sales.

Commentary No. 892 (June 15, 2017) reviewed May 2017 Industrial Production and assessed current circumstances and likely pending shifts in FOMC policy, in the context of rapidly-deteriorating, headline economic data.

Commentary No. 890 (June 5, 2017) covered the negative-downside annual benchmark revisions to the trade deficit, the May 2017 estimates of labor conditions, ShadowStats Ongoing Money Supply M3, The Conference Board Help Wanted OnLine® Advertising and April 2017 estimates of the Cass Freight Index™, and the monthly trade deficit and construction spending.

Special Commentary No. 888 (May 22, 2017) discussed evolving political circumstances that could impact the markets and the economy, reviewed the annual benchmark revisions to Manufacturers' Shipments and New Orders for Durable Goods and updated Consumer Liquidity Conditions.

Commentary No. 887 (May 18, 2017) reported on the April 2017 detail for Industrial Production and Residential Construction (Housing Starts), with some particular attention to historic, protracted periods of economic non-expansion, of which the current non-recovery is the most severe.

Special Commentary No. 885, entitled *Numbers Games that Statistical Bureaus, Central Banks and Politicians Play*, (May 8, 2017) reviewed the unusual nature of the headline reporting of the April 2017 employment and unemployment details.

Commentary No. 882 (April 27, 2017) summarized the annual benchmark revisions to Retail Sales and reviewed the March 2017 releases of New Orders for Durable Goods and New- and Existing-Home Sales.

Commentary No. 877 (April 2, 2017) outlined the nature of the downside annual benchmark revisions to industrial production, along with implications for pending annual revisions to Retail Sales, Durable Goods Orders and the GDP.

Commentary No. 876 (March 30, 2017) current headline economic activity in the context of formal definitions of the business cycle (no other major series come close to the booming GDP, which is covered in its third revision to fourth-quarter activity. Also the February 2017 SentierResearch reading on real median household income was highlighted.

Commentary No. 875 (March 24, 2017) assessed and clarified formal definitions of the U.S. business cycle, which were expanded upon significantly, subsequently, in *No. 876*. It also provided the standard review of the headline February 2017 New Orders for Durable Goods, New- and Existing-Home Sales and the Cass Freight Index™.

General Commentary No. 867 (February 24, 2017) assessed mixed signals for a second bottoming of the economic collapse into 2009, which otherwise never recovered its level of pre-recession activity. Such was in the context of contracting and faltering industrial production that now rivals the economic collapse in the Great Depression as to duration. Also covered were the prior January 2017 New- and Existing Home Sales.

Commentary No. 864 (February 8, 2017) analyzed January 2017 Employment and Unemployment detail, including benchmark and population revisions, and estimates of December Construction Spending, Household Income, along with the prior update to Consumer Liquidity.

Commentary No. 861 (January 13, 2017) covered the December 2016 nominal Retail Sales, the PPI, with a brief look at some summary GAAP reporting on the U.S. government's fiscal 2016 operations.

No. 859 Special Commentary (January 8, 2017) reviewed and previewed economic, financial and systemic developments of the year passed and the post-election year ahead.

Note on Reporting-Quality Issues and Systemic-Reporting Biases. In the context of historical background provided in *Special Commentary No. 885*: *Numbers Games that Statistical Bureaus, Central*

Banks and Politicians Play, 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 both to understate inflation and to overstate economic activity meaningfully—as generally viewed in the common experience of Main Street, U.S.A.—ongoing, near-term headline reporting issues often reflect systemic distortions of monthly seasonal adjustments.

Data instabilities—induced partially by the still-evolving economic turmoil of the last 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). While historical seasonal-factor adjustments are revised every month, based on the latest, headline monthly data, the consistent, revamped historical data are not released or reported at the same time. 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 2016 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 July 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 several years 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*). Investigative-financial/business reporter John Crudele of the *New York Post* has written extensively on such reporting irregularities: *Crudele Investigation*, *Crudele on Census Bureau Fraud* and *John Crudele on Retail Sales*.

PENDING ECONOMIC RELEASES: Nominal and Real Retail Sales (July 2017). The Census Bureau will release its "advance" estimate of July 2017 nominal (not-adjusted-for-inflation) Retail Sales tomorrow, Tuesday, August 15th, subesequent to the Bureau of Labor Statistics' (BLS) July 2017 CPI release of August 11th. Accordingly, both the nominal and real (adjusted-for-inflation) Retail Sales details will be reviewed in *Commentary No. 905* of August 17th.

Discussed in the earlier CPI-U *Reporting Detail*, July 2017 real Retail Sales will show growth rates reduced versus headline nominal growth by 0.11% (-0.11%) month-to-month, and by 1.73% (-1.73%) year-to-year.

Despite early-consensus expectations favoring strong, monthly nominal growth of 0.3% to 0.4%, underlying weakness continues to mount in anecdotal evidence tied to auto and retail-store sales, suggestive of further, outright flat-to-minus nominal month-to-month sales activity, with headline nominal weakness intensified in real terms by the inflation uptick. Aside from weaker-than-expected headline activity in July, there remains a fair bet for continued downside revisions to recent activity.

Even with an upside-consensus gain of 0.4% in nominal monthly sales, however, real annual growth in sales would remain well below 2.0%, where real growth of 2.0%-or-below is a traditional recession indicator.

Per today's *Consumer Liquidity Watch*, 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 personal-consumption expenditures and retail sales, real or otherwise.

New Residential Construction—Housing Starts (July 2017). The Census Bureau will release the July 2017 estimate of New Residential Construction, including Housing Starts and Building Permits on Wednesday, August 16th, with detail covered in *Commentary No. 905* of August 17th.

In line with common-reporting experience of recent years, monthly results are likely to be unstable, heavily revised and not statistically meaningful, holding in a general pattern of down-trending stagnation. That said, in the wake of continuing, nonsensical extreme swings in recent months and relatively meaningless recent annual benchmark revisions, almost anything remains possible in this unstable series in a given month, despite what are minimally-positive consensus expectations for the headline detail.

Irrespective of the usual lack of significance in the headline numbers, the broad pattern of Housing Starts should remain consistent with the low-level, stagnant-to-downtrending activity, seen at present. Despite some "catch-up" gain in June 2017's low-level of activity, both Housing Starts and Building Permits showed patterns of deepening quarter-to-quarter contractions for both first- and second-quarter 2017, with respective headline activity down by 46.5% (-46.5%) and by 44.6% (-44.6%) from recovering pre-recession highs. Such low-level stagnation is particularly evident with headline detail viewed in the context of a six-month moving average (see *Commentary No. 900*). Again, this series remains subject to regular and extremely-large, prior-period revisions.

Discussed in today's *Consumer Liquidity Watch*, 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 demand for residential construction.

Index of Industrial Production (July 2017). The Federal Reserve Board will publish its estimate of July 2017 Industrial Production activity on Thursday, August 17th, with coverage, again, in *Commentary No. 905* of that date. The highly touted headline monthly surge of 0.4% in June production was nonsense, due almost entirely to downside revisions to prior-month reporting, net of which, production rose by just 0.1% and manufacturing was on the downside of flat (see *Commentary No. 899*).

Where early-consensus expectations favor a solid monthly gain of 0.3% July, much weaker-than-expected growth remains likely, with a fair shot at contracting month-to-month activity. Such is in the broad context of slowing business activity and further downside revisions to previously-estimated production levels of the last six months.

____

