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

**COMMENTARY NUMBER 920**

**October 2017 Retail Sales, Consumer and Produce Price Indices**

**November 15, 2017**

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**Outlook for U.S. Economic and Financial-Market Activity Continues to Darken**

**That Former Malarial Swamp on the Potomac Offers a Tax Bill
Penalizing U.S. Tax Payers with the First Formal Use of the Chained-CPI-U**

**Unwinding Hurricane Impact Softened October CPI Inflation**

**October CPI-U Monthly Inflation Slowed to 0.11% (Was 0.55%)
Pulling Annual CPI-U Inflation Lower to 2.04% (Was 2.23%), with
CPI-W at 2.05% (Was 2.31%) and ShadowStats at 9.8% (Was 10.0%)**

**A Nonsense October PPI Surge Was Due to Collapsing Gasoline Prices**

**October 2017 Final-Demand PPI Inflation Monthly Gain of 0.44%
Pulled Annual Gain to a 69-Month High of 2.79%, from 2.62% in September 2017**

**Unrevised Real Average Weekly Earnings Declined Minimally in Third-Quarter, on
Early Track for a Meaningful Fourth-Quarter 2017 Contraction**

**Storm Impact Still Boosted October Retail Sales, While
Long-Range, Non-Recovering and Downtrending Economic Trends Remained in Play**

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*PLEASE NOTE: The next Regular Commentary, Friday, November 17th, will cover October Industrial Production and New Residential Construction (Housing Starts and Building Permits).*

*Best wishes to all — John Williams (707) 763-5786*

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**Today's (November 15th)** ***Opening Comments and Executive Summary*** reviews the nature of unfolding, broad U.S. economic, market and inflation circumstances, with the ***Executive Summary*** (page 3) providing highlights of the October Retail Sales and Consumer and Producer Price Indices (CPI and PPI).

The ***Reporting Detail*** (page 9) reviews the October Retail Sales and the CPI and PPI numbers in greater detail.

The ***Hyperinflation Watch*** (page 28) reviews background circumstances for the U.S. dollar and related markets.

The ***Consumer Liquidity Watch*** (page 33) has been updated for September Consumer Credit Outstanding, October Real Average Weekly Earnings and early-November 2017 Consumer Sentiment.

The ***Week, Month and Year Ahead*** (page 43) provides background on recent *Commentaries* and updates previews of the pending October Industrial Production and New Residential Construction releases.

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## OPENING COMMENTS

**Outlook for U.S. Economic and Financial-Market Activity Continues to Darken.** Other than for some hurricane-related rebuilding activity that still should work its way into various construction measures, the bulk of the disaster-related economic distortions to headline economic reporting likely will have worked its way through the economic system by January 2018. In particular, that applies to the household survey employment and unemployment details (see *Commentary No. 919-B*) and for activity in replacement automobiles that have affected retail sales and should still have some impact on new orders and production.

By early 2018, broad economic activity should have settled down, once again, to a pattern of deteriorating non-recovery, a circumstance still seen commonly in the background of most major economic reporting. This situation does not have happy implications for either Federal Reserve policy or for the domestic financial markets and the U.S. dollar, as discussed in today's *Hyperinflation Watch*.

***Congress Moves to Penalize U.S. Taxpayers With Artificially-Low Inflation Accounting.*** Whatever comes out of the tax bill currently before Congress, the U.S. government's first formal use of the openly-understated inflation rate known as the Chained-CPI-U (C-CPI-U) appears to be set to do damage to U.S. taxpayers. The C-CPI-U has been designed to help the U.S. government contain its budget deficit by subterfuge. It artificially reduces the headline annual inflation number used in calculating tax brackets every year, pushing taxpayers into higher tax brackets than with the headline CPI-U. Projections are for this ploy to increase tax-payer outlays to the U.S. Treasury by hundreds of billions of dollars in the decades ahead.

***Formally Exacerbating a Pre-Existing Government Accounting Fraud.*** The gimmicked inflation penalty already, however, has been in play since the early 1980s, with numerous changes to inflation-reporting methodologies designed to reduced headline inflation, as discussed in some detail in the *Public Commentary on Inflation Measurement* and in the *CPI* section of today's *Reporting Detail*.

As heavily promoted in the 1990s by then-Federal Reserve Chairman Alan Greenspan, then-Speaker of the House Newt Gingrich and backed by the Boskin Commission, redefining the Consumer Price Index so as to reduce headline inflation would help to reduce the budget deficit, by cutting cost-of-living adjustments to Social Security recipients, for example, and by boosting individuals into higher tax brackets. Significant changes to the headline CPI-U reporting have already had that impact, again, see the references. What is new here is that the C-CPI-U, which was designed and developed to minimize headline inflation reporting versus common experience, and to maximize the financial gain for the Federal Government against taxpayers and recipients of inflation-adjusted government funds, finally is coming into formal play. Its first target is to boost taxpayers into higher tax brackets than would been the case with regular inflation reporting. Its direct application to cost-of living adjustments cannot be far behind.

**EXECUTIVE SUMMARY: Retail Sales, Nominal and Real—October 2017—Hurricane-Boosted Activity Continued, Recession Signal Remained in Play.** The hurricane-induced surge in replacement automobile sales in September 2017 continued into October, on top of an upside revision to related September activity. At the same time, hurricane-spiked gasoline prices of September abated somewhat.

As a result, **h**eadline nominal Retail Sales rose month-to-month by 0.23% in October, having gained an upwardly revised 1.87% in September and having declined by a minimally-revised 0.05% (-0.05%) in August. Net of the prior-month's revisions, October 2017 sales gained by 0.55% for the month. The October 2017 year-to-year gain in Retail Sales showed a statistically-significant increase of 4.55%, versus upwardly revised annual gains of 4.83% in September 2017 and 3.55% in August 2017.

Adjusted for weakened, headline CPI-U inflation, real month-to-month retail sales gained 0.13% in October 2017, versus an upwardly revised 1.31% in September and a minimally-narrowed decline in August of 0.45% (-0.45%). Real annual Retail Sales growth eased to 2.46% in October 2017, versus an upwardly-revised 2.55% in September 2017 and an unrevised 1.58% in August 2017.

***Recession Signal Still in Place.*** During normal economic times, annual real growth in Retail Sales at or below 2.0% signals an imminent recession. That signal broadly had been in play since February 2015 (a "new" recession likely still will be timed from December 2014, based on industrial production, retail sales and other indicators), suggesting a deepening, broad economic downturn.

When that annual growth signal had moved higher, close to three-percent earlier in 2017, ShadowStats had viewed that recession signal as in temporary abeyance. Post-2017 benchmarking, however, annual growth rates shifted lower, towards two-percent, and then below, reviving that recession signal. In the context of volatile near-term revisions, 1.22% year-to-year real growth reported initially in August 2017 was the most-solid recession signal since the economy crashed anew into early-2015.

Although that August reading now has revised to 1.58%, along with headline annual real growth in September 2017 at a revised 2.55% and October at 2.46%, these numbers still are broadly within the recession-signal range, particularly in the context of the near-term, short-lived hurricane spikes. More significantly, year-to-year real quarterly growth now stands at 2.02% in third-quarter 2017, versus 1.94% in second-quarter 2017, both close to 2.0%. Aggregate fourth-quarter activity also should fall to or below 2.0%.

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***Real Retail Sales Graphs, Corrected and Otherwise.*** In the *Reporting Detail*, *Graphs 4* and *6* show the level of real retail sales activity (deflated by the CPI-U), while *Graphs 5* and *7* show year-to-year percent change. The apparent "recovery" of headline real retail sales shown in the following *Graph 1* (again, see also *Graph 4* in the *Reporting Detail*) generally continued into late-2014. Although headline reporting turned down in December 2014, into first-quarter 2015, it turned higher into the third-quarter 2015, slowed to a near-standstill in fourth-quarter 2015 and contracted in first-quarter 2016, with an uptick in second-quarter 2016, with renewed slippage into third-quarter 2016, a further uptick in fourth-quarter 2016 and upturn into 2017, with a hurricane-induced jump in September and October.

Nonetheless, headline real growth in retail sales continues to be overstated heavily, due to the understatement of CPI-U inflation used in deflating the retail sales series. Discussed more fully in *Chapter 9* of *2014 Hyperinflation Report—Great Economic Tumble – Second Installment* and *Public Commentary on Inflation Measurement*, deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth.

Both of the accompanying graphs are indexed to January 2000 = 100.0 to maintain consistency in the series of graphs related to corrected inflation-adjustment, including the regular plots of the "corrected" industrial production index, the "corrected" new orders for durable goods and the "corrected" GDP. Those "corrected" numbers are covered respectively in *Commentary No. 917* and *Special Commentary No. 918-B*.

The first graph here reflects the official real retail sales series, except that it is indexed, instead of being expressed in dollars. The plotted patterns of activity and rates of growth are exactly the same for the official series, whether the series is indexed or expressed in dollars, again, as is evident in a comparison of *Graph 1* with *Graph 4* in the *Retail Sales—Nominal and Real* in the *Reporting Detail* section.

Instead of being deflated by the CPI-U, the "corrected" real retail sales numbers—in *Graph 2*—use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation. With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation and renewed downturn. That pattern generally is consistent with consumer indicators such as real average weekly earnings (see *Graph 3*) and faltering consumer liquidity conditions (see the *Consumer Liquidity Watch* and the *ECONOMY* section of *No. 859 Special Commentary*). Extended coverage is found in the *Reporting Detail*.

[Graphs 1 and 2 follow on the next page.]

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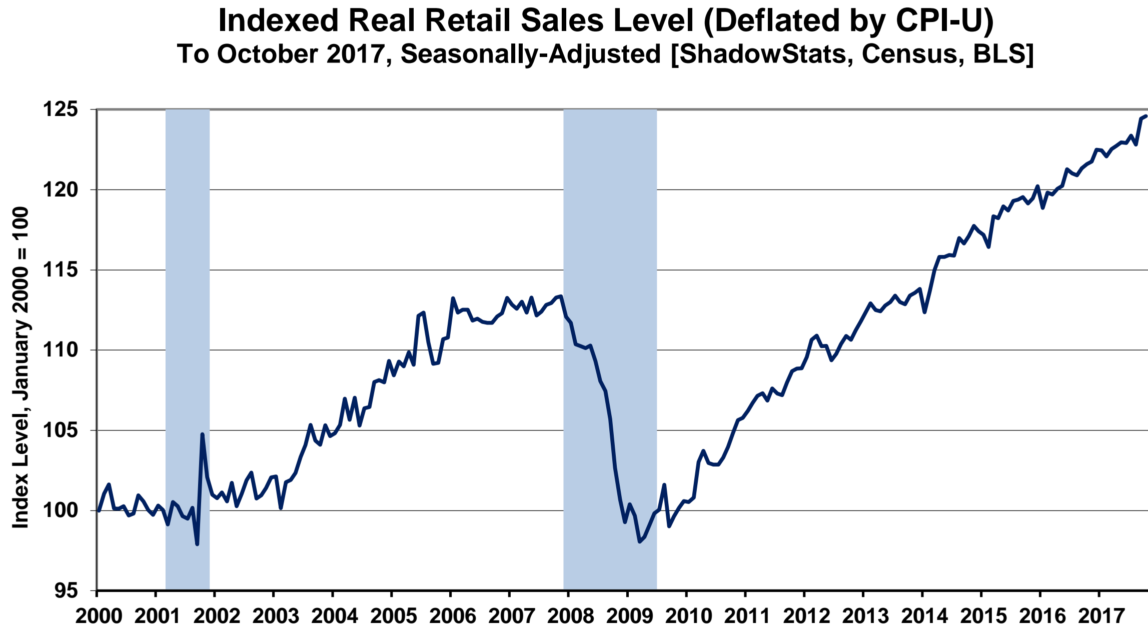
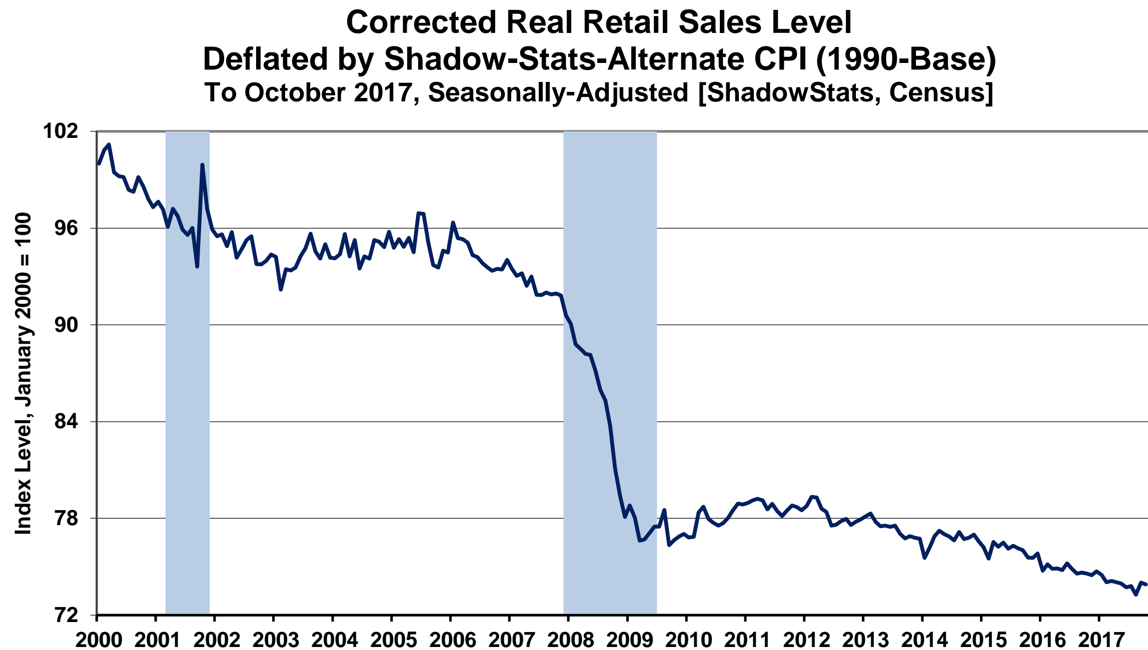
***Graph 1: Headline Real Retail Sales Level, Indexed to January 2000 = 100***




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

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**Consumer Price Index (CPI)—October 2017—CPI-U Rose 0.11% Month-to-Month, 2.04% Year-to-Year.** With hurricane-spiked gasoline prices dominating a sharp spike in headline consumer inflation for September, October inflation eased back to more-stable levels. The Bureau of Labor Statistics (BLS) reported a seasonally-adjusted 0.11% monthly gain in the October CPI-U, following previously reported monthly gains of 0.55% in September and 0.40% in August. Unadjusted year-to-year inflation rose by 2.04% in October 2017, 2.23% in September 2017 and 1.94% in August 2017

Despite recent month-to-month volatility, current year-to-year inflation still has remained well shy of its 60-month high of 2.74% of February 2017, having hit a near-term trough of 1.63% in June 2017, with rebounds to 1.73% in July 2017 and 1.94% in August 2017. What led the recent inflation surge into the February 2017 CPI annual gain was driven by rising gasoline prices, not by economic demand, and the same is true in the latest circumstance. The inflation surges and declines of the recent past and present have not been driven by an overheating economy, as claimed by some on the Fed's FOMC, but rather by highly unstable gasoline prices.

Still, with unadjusted annual October 2017 CPI-U inflation at 2.04%, 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 October 2017 of 5.6%, based on 1990 methodologies, and of 9.8%, based on 1980 methodologies.

Where the Consumer Price Index for All Urban Consumers (CPI-U) is the broadest headline consumer-inflation number, used to adjust numerous economic measures such as retail sales for inflation effects, as discussed in the previous *Retail Sales Section*. 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 (see *Graph 3*). More heavily weighted for gasoline prices, the October 2017 seasonally-adjusted CPI-W rose month-to-month by 0.08%, versus gains of 0.66% in September and 0.46%, in August. Unadjusted, year-to-year change in the October 2017 CPI-W was 2.05%, versus 2.31% in September 2017 and 1.93% in August 2017.

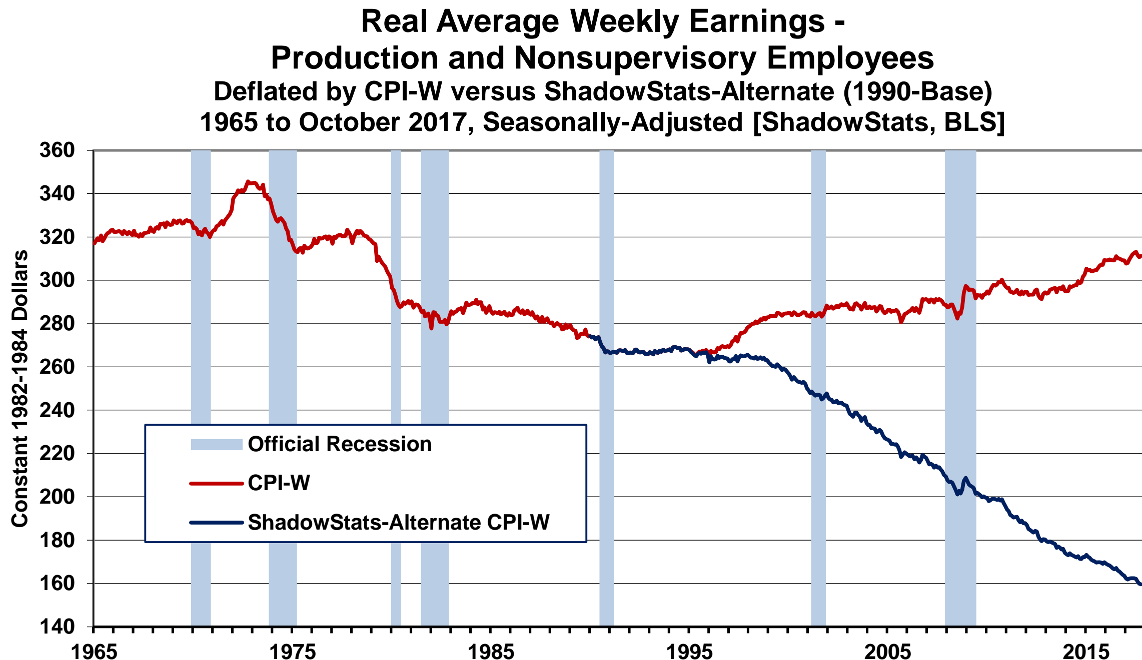
***Real Average Weekly Earnings—October 2007—Month-to-Month Real Earnings Notched Higher, Third-Quarter Still Showing Flat/Minimal Contraction, Early Fourth-Quarter Trend Was Negative.*** October 2017 real average weekly earnings was published this morning along with the headline October 2017 CPI-W. In the production and nonsupervisory employees category—the only series for which there is a meaningful history, the regularly-volatile real average weekly earnings rose by 0.17% in October 2017, versus unrevised month-to-month declines of 0.25% (-0.25%) in September and 0.53% (-0.53%) in August and an unrevised monthly gain of 0.17% in July. Year-to-year, the adjusted October 2017 real change rose to 0.54%, versus an unrevised gains 0.23% in September 2017, 0.47% in August 2017 and 0.67% in July 2017.

The second full estimate of annualized quarterly change in third-quarter 2017 real average weekly earnings also was unrevised, still a minimal annualized quarterly contraction of 0.01% (-0.01%). Fourth-quarter 2017 is on early track for an annualized contraction of 0.70% (-0.70%), based solely on the initial estimate for October 2017.

Second-quarter 2017 activity reflected an unrevised, annualized real quarterly gain of 4.43%, following 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%.

***Graph 3: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date***
**(Same as Graph CLW-7 in the Consumer Liquidity Watch)**




*Graph 3* shows 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.

**Producer Price Index (PPI)—October 2017—Utter Nonsense Out of the Services Sector Boosted Annual PPI Inflation to a 69-Month High.** Once again, headline year-to-year PPI Final Demand inflation hit another multi-year high, with the annual 2.79% rate of October 2017 at the highest reading since January 2012. Once again, the recent relative strength in annual inflation has not reflected an overheating economy, despite continuing claims to the contrary by some on the FOMC looking to hike interest rates.

The headline inflation issue remains in energy-price distortions of the last several years, which have been rigged heavily through the Federal Reserve's interest-rate jawboning and dollar-propping gimmicks. Instead of surging energy prices, as seen in September 2017, however, the bulk of the jump in headline October 2017 PPI inflation came from the "services sector," from rising profit margins among gasoline

dealers and wholesalers, due to the effects of plunging gasoline prices on existing inventories. Such is the regular nonsense seen with this particular inflation series, which is dominated by theoretical services "margins" as opposed to the hard costs of goods or services.

Separate from those definitional gimmicks, the old-fashioned, headline seasonally-adjusted monthly goods inflation in October 2017 was 0.27%, versus the gasoline-spiked 0.72% gain in September 2017. The October goods-sector inflation increase reflected food prices up by 0.52%, with energy prices "unchanged" at 0.00%, and "core" inflation (ex-food and energy) up by 0.26%. Before seasonal adjustments, goods inflation gained 0.09% in the month, with food inflation up by 0.26%, energy prices down by 2.40% (-2.40%) and "core" inflation up by 0.62%. For the PPI-FD Goods sector, annual inflation of 3.23% in October 2017 was down from 3.32% in September 2017, and from the recent near-term peak of 4.12% in April 2017.

For the three major subcategories of the October 2017 PPI-FD headline 0.44% monthly gain, monthly Goods inflation, again, rose by 0.27%, the dominant Services "inflation" (profit margins) rose by 0.53% and the minimally-weighted Construction inflation increased by 0.51%, with respective unadjusted annual growth rates of 2.79% for the aggregate, 3.23% (goods), 2.41% (services) and 3.14% (construction).

***[Extended analysis and graphics follow in the* Reporting Detail*.]***

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## REPORTING DETAIL

### RETAIL SALES (October 2017)

**Hurricane-Boosted Activity Continued into October, on Top of Related Upside Revisions to September Sales.** The hurricane-induced surge in replacement automobile sales in September continued into October, on top of an upside revision to related September activity, although the hurricane-spiked gasoline prices of September abated somewhat. Accordingly nominal retail sales rose month-to-month by 0.23% in October versus a revised 1.87% (previously 1.56%) in September, with real sales (CPI-U adjusted) up respectively by 0.13% in October versus 1.31% (previously 1.00%) in September.

***Nominal Retail Sales—October 2017.*** The Census Bureau reported this morning, November 15th, its "advance" estimate of October 2017 Retail Sales. Headline nominal activity increased by 0.23% in October, having gained a revised 1.87% [previously 1.56%] in September and having declined by a revised 0.05% (-0.05%) [previously down by 0.06% (-0.06%), initially down 0.21% (-0.21%)] in August 2017. Net of the prior-month's revisions, October 2017 sales gained by 0.55% for the month.

The headline, seasonally-adjusted October 2017 nominal monthly gain of 0.23% +/- 0.59% was not statistically-significant (all confidence intervals are expressed at the 95% level). The revised headline September 2017 monthly retail sales gain of 1.87% +/- 0.23%, however, was.

***Year-to-Year Annual Change.*** The October 2017 nominal year-to-year change in Retail Sales showed a statistically-significant increase of 4.55% +/- 0.82%, versus revised annual gains of 4.83% [previously 4.44%] in September 2017, and 3.55% [previously 3.54%, initially 3.17%] in August 2017.

***October 2017 Core Retail Sales, Net of Food and Gasoline.*** Reflecting an environment that in theory should be seeing the plus-side of flat, seasonally-adjusted food prices [up by 0.04% in the October CPI-U per the Bureau of Labor Statistics (BLS)] and plunging gasoline prices [down by 2.44% (-2.44%) for the month on a seasonally-adjusted basis, per the BLS], seasonally-adjusted grocery-store sales rose month-to-month by a headline 0.59%, with gasoline-station sales down by 1.16% (-1.16%) in October 2017.

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

Version I: Nominal October 2017 versus September 2017 seasonally-adjusted retail sales series—net of total grocery store and gasoline-station sales—rose by 0.33%, versus the official headline aggregate sales gain of 0.23%.

Version II: Nominal October 2017 versus September 2017 seasonally-adjusted retail sales series—net of the monthly *change* in grocery store and gasoline-station revenues—rose by 0.26%, versus the official headline aggregate sales gain of 0.23%.

***Real Retail Sales—October 2017—In the Context of Continuing Hurricane-Boosted Activity, Real Sales Gained 0.13%.*** October 2017 CPI-U inflation (released today, November 15th, discussed in the next section), showed a monthly gain in seasonally-adjusted consumer inflation of 0.11%, which was against a hurricane-spiked (gasoline prices) 0.55% in September and 0.40% in August, with year-to-year seasonally-adjusted CPI-U inflation of 2.05% in October 2017, versus 2.23% in September 2017 and 1.94% in August 2017.

Accordingly, real month-to-month retail sales gained 0.13% in October 2017, versus a revised 1.31% [previously 1.00%] in September 2017, versus a revised, narrowed decline of 0.45% (-0.45%) [previously 0.46% (-0.46%), initially 0.61% (-0.61%)] in August 2017. Real annual Retail Sales growth eased to 2.46% in October 2017, versus a revised 2.55% [previously 2.17%] in September 2017 and an unrevised 1.58% [initially 1.22%] in August 2017.

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

When that annual growth signal had moved higher, close to three-percent earlier in 2017, ShadowStats had viewed that recession signal as in temporary abeyance. Post-2017 benchmarking (*Commentary No. 882* of April 27th), however, annual growth rates shifted lower, towards two-percent, and then below, reviving that recession signal. In the context of volatile near-term revisions, 1.22% year-to-year real growth reported initially in August 2017 was the most-solid recession signal since the economy crashed anew into early-2015.

That August now has revised higher to 1.58%, along with headline annual real growth in September 2017 at a revised 2.55% and October at 2.46%, still broadly within the recession-signal range, particularly in the context of the near-term, short-lived spikes. More significantly, year-to-year real quarterly growth now stands at 2.02% in third-quarter 2017, versus 1.94% in second-quarter 2017, both close to 2.0%. Aggregate fourth-quarter activity also should fall to or below 2.0%.

Annualized Real Quarterly Growth/Downside Revisions to Third- and Fourth-Quarter 2016. Reflecting downside revisions to September and October 2016 real retail sales activity, third-quarter 2016 annualized quarterly growth revised to 1.87% (previously 1.94%), with fourth-quarter 2017 annualized growth slowing to 2.89% (previously 3.11%).

Against the downwardly-revised fourth-quarter 2016 activity, first-quarter 2017 (otherwise unrevised) annualized quarter-to-quarter real retail sales growth revised to 1.34% (previously 1.05%). Second-quarter 2017 annualized real quarterly growth was unrevised at 1.68%, with third-quarter 2017 reporting, including hurricane-boosted and upwardly-revised September detail, now shows annualized quarterly growth of 2.18% (previously 1.74%). Based solely on the spiked October 2017 detail, fourth-quarter 2017 real retail sales are on early track for annualized growth of 3.43%.

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***Structural Liquidity Issues Continue to Impair Retail Sales.*** An extreme consumer-liquidity bind increasingly constrains retail sales activity (discussed in the *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 the income shortfall, the U.S. consumer remains unable to sustain positive growth in domestic personal consumption, including retail sales, real or nominal. That circumstance—in the last ten-plus years of economic collapse and stagnation—has continued to prevent a normal recovery in broad, inflation-adjusted U.S. economic activity, 73.1% of which is dependent on personal spending and residential real estate.

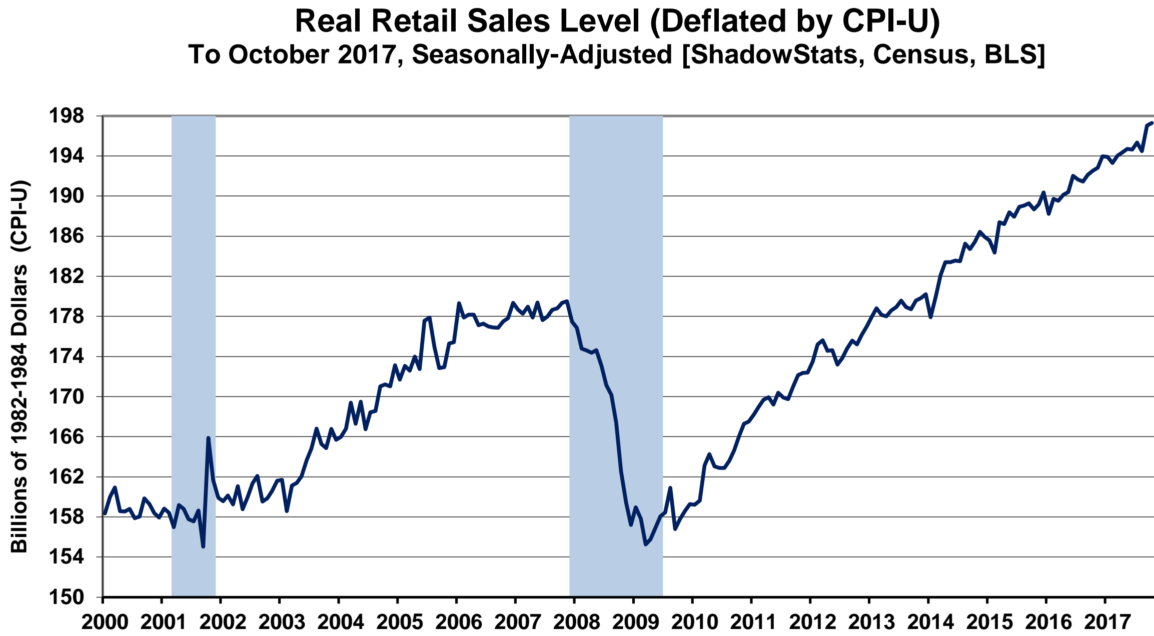
As headline consumer inflation generally continues its upside climb in the year ahead, and as overall Retail Sales—net of natural-disaster impacts—continue to suffer from the ongoing consumer liquidity squeeze, the real Retail Sales data shortly should resume trending meaningfully lower, in what likely still will gain recognition as a formal "new" recession, another down-leg in the economic collapse that began in 2006, known formally as the 2007 recession.

***Real Retail Sales Graphs.*** The first of the four graphs following, *Graph 4* shows the level of real retail sales activity (deflated by the CPI-U) since 2000; *Graph 5* shows the year-to-year percent change for the same period. Annual real growth had slowed markedly into fourth-quarter 2015 and 2016, generating an intense recession signal. Despite some near-term volatility, the latest revisions to real annual real growth had been turning lower, anew, but now with a hurricane jump in September that likely topped out in the October data. *Graphs 6* and *7* show the level of, and annual growth in, real retail sales (and its predecessor series) in full post-World War II detail.

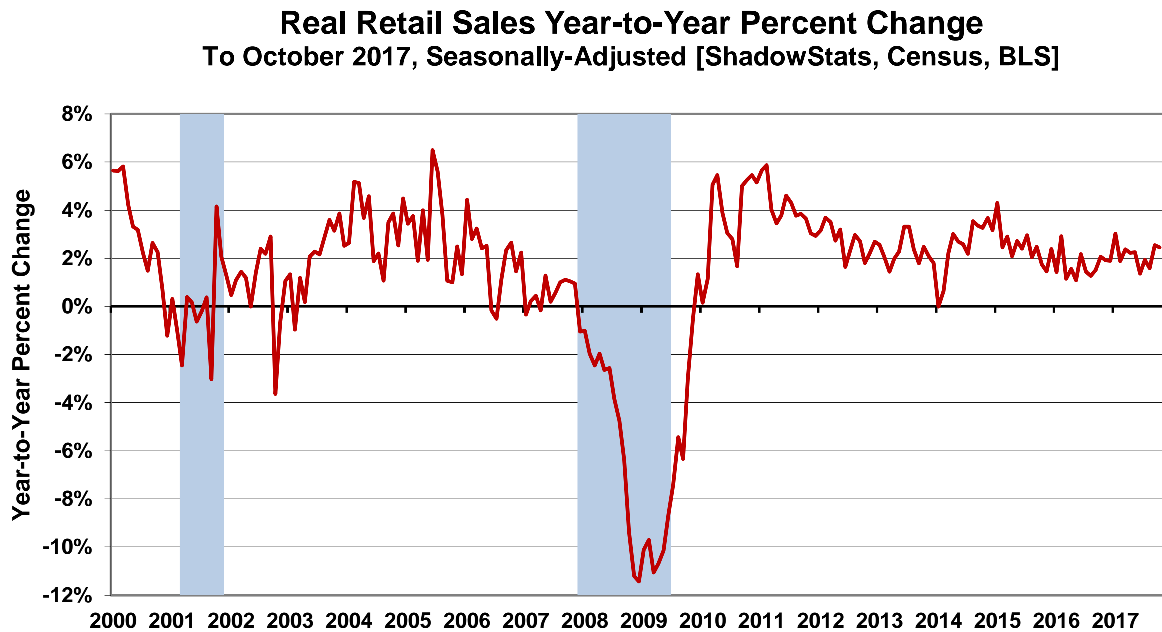
The relative strength seen in the real retail series since the economic trough in 2009 largely has reflected the understatement of the rate of inflation used in deflating the series. Discussed more fully in *Chapter 9* of *2014 Hyperinflation Report—Great Economic Tumble – Second Installment*, deflation by too low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted, real economic growth. Shown in the latest "corrected" real retail sales—*Graph 2* in the *Executive Summary* section—with the deflation rates corrected for the understated inflation reporting of the CPI-U, the recent pattern of real sales activity has turned increasingly negative, allowing for a brief, hurricane-related spike in September. The corrected graph shows that the post-2009 period of protracted stagnation ended, and a period of renewed and ongoing contraction began in second-quarter 2012 and continues to date. The corrected real retail sales numbers use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation instead of the CPI-U.

[Graphs 4 to 7 begin on the next page.]

***Graph 4: Level of Real Retail Sales (2000 to Date)***




***Graph 5: Real Retail Sales (2000 to Date), Year-to-Year Percent Change***

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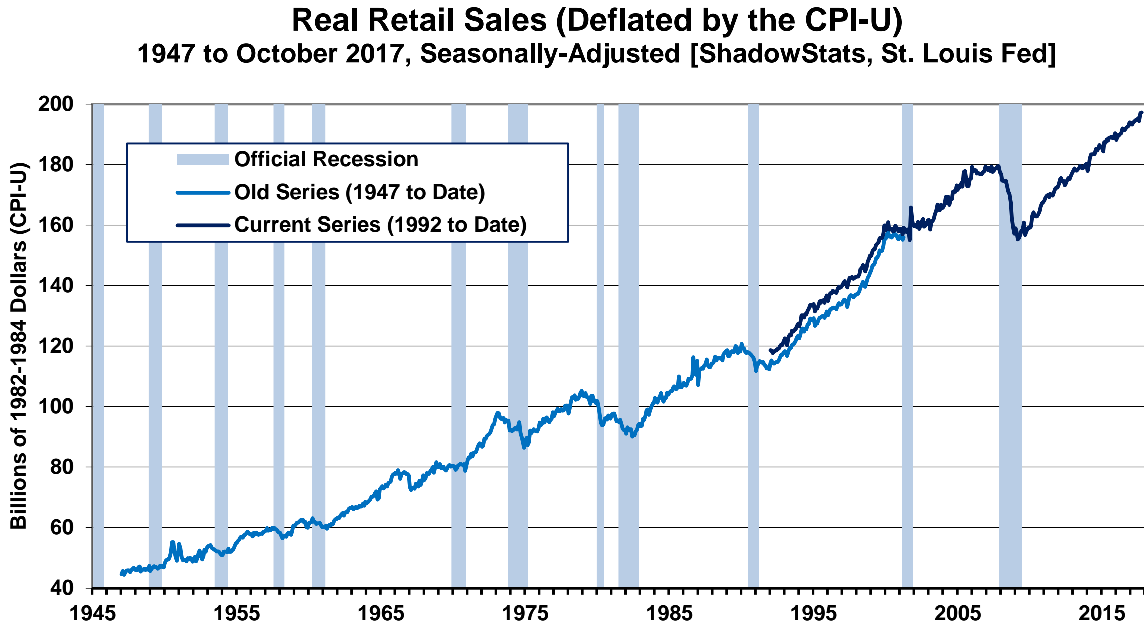
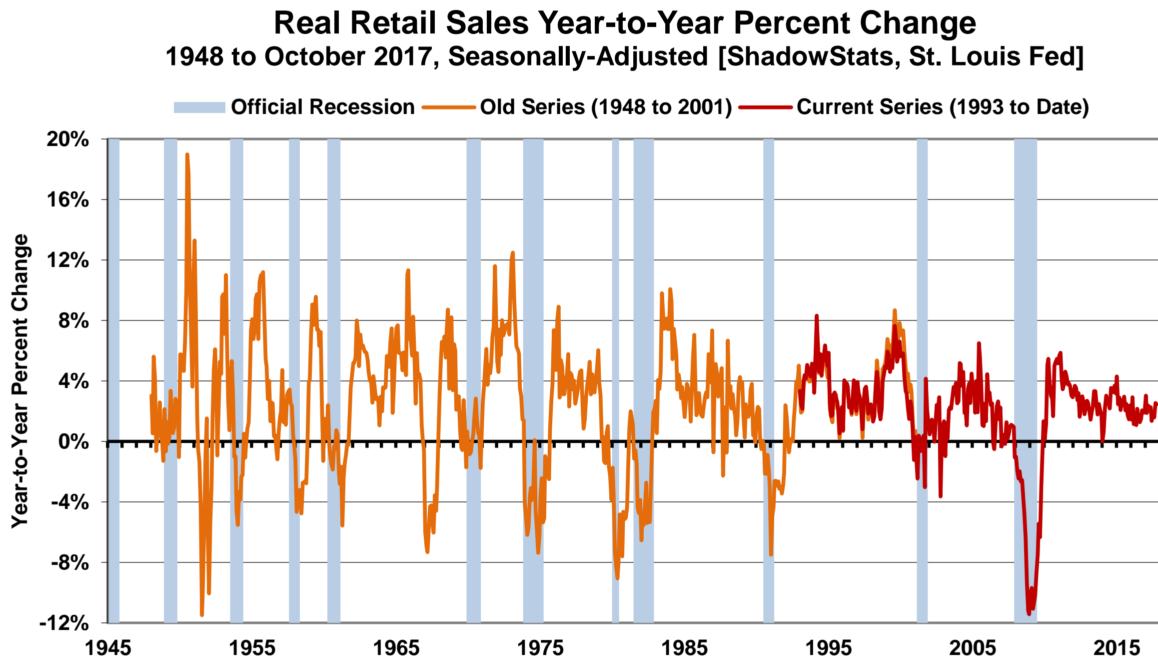
***Graph 6: Level of Real Retail Sales (1947 to Date)***




***Graph 7: Real Retail Sales (1948 to Date), Year-to-Year Percent Change***

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**CONSUMER PRICE INDEX—CPI (October 2017)**

**CPI-U Gain Slowed to 0.11% Month-to-Month and to 2.04% Year-to-Year, with the Fed's Targeted "Core" Inflation Still Holding Below 2.0%.** A sharp decline in monthly October gasoline prices—reversing part of the hurricane-spiked gasoline prices of September—moderated the monthly surges seen recently in consumer inflation. With no special seasonal adjustments made by the Bureau of Labor Statistics (BLS), the 0.98% (-0.98%) seasonally-adjusted and 3.90% (-3.90%) unadjusted monthly declines in gasoline prices were of large-enough magnitude to mask partially some monthly jump in "core" inflation, although annual core inflation continued at a pace still well below the Federal Reserve's expressed target of 2.0%.

Repeating patterns of recent years, more-positive seasonal adjustment factors, beginning in July 2017, started to boost the headline reporting of CPI-U inflation in the second-half of the calendar year, reversing the negatively-biased reporting of the seasonally-adjusted monthly inflation in the first-half of 2017. Nonetheless, unadjusted annual growth slowed to 2.04% in October 2017, versus the 2.23% gain of September 2017, still well shy of its 60-month high of 2.74% in February 2017, having hit a subsequent near-term trough of 1.63% in June 2017, with rebounds to 1.73% in July 2017, to 1.94% in August 2017.

What had led to the recent inflation surge into the February 2017 CPI annual gain were rising gasoline prices, largely independent of near-term economic activity. The same is true in the current circumstance. Near-term inflation volatility largely reflects volatile gasoline prices, which reflect a number of factors such as the U.S. dollar and Federal Reserve policies. These inflation surges, past and present, have not been driven by an overheating economy, as claimed by some on the Fed's FOMC. Indeed, the FOMC's favored CPI-U inflation measure, the "Core" rate, net of food and energy, was at an unadjusted 1.77% in October 2017, after five straight month at a rounded 1.7%, and otherwise the lowest annual core inflation rate since 1.6% in December 2015.

Separately, with unadjusted annual October 2017 CPI-U inflation up by 2.04%, 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 October 2017 at 5.6%, based on 1990 methodologies, and at 9.8%, based on 1980 methodologies.

***Longer-Range Inflation Outlook.*** Despite U.S. dollar strength of recent years, and what had been accelerating, now increasingly faltering dollar strength, subsequent to the post-election euphoria and the last rate hike, a tremendous threat to the dollar and systemic liquidity and stability continues. That is 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. Recent Fed tightening actions have been despite continued, intensifying "adverse" economic circumstances (see the *Hyperinflation Watch*). The U.S. central bank has been forced to prop banking-system liquidity against the ongoing gale of renewed, economically-driven, banking-system solvency and liquidity issues, with pressures intensified by recent systemic disruptions from natural disasters, increasing political discord in Washington and mounting global political instabilities. Despite strong speculation and protestations to the contrary, ultimately, the FOMC likely will end up reverting to renewed and expanded quantitative easing.

Compounding the high-risk of a near-term run on the U.S. dollar remains mounting recognition in global markets of same. The U.S. Federal Reserve and other central banks still have no effective idea as to how

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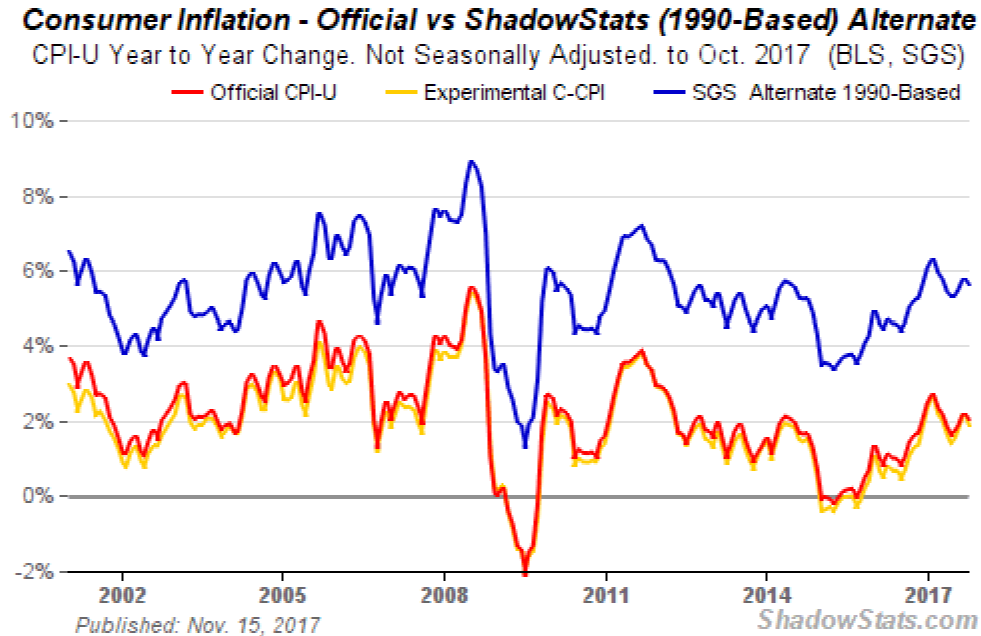
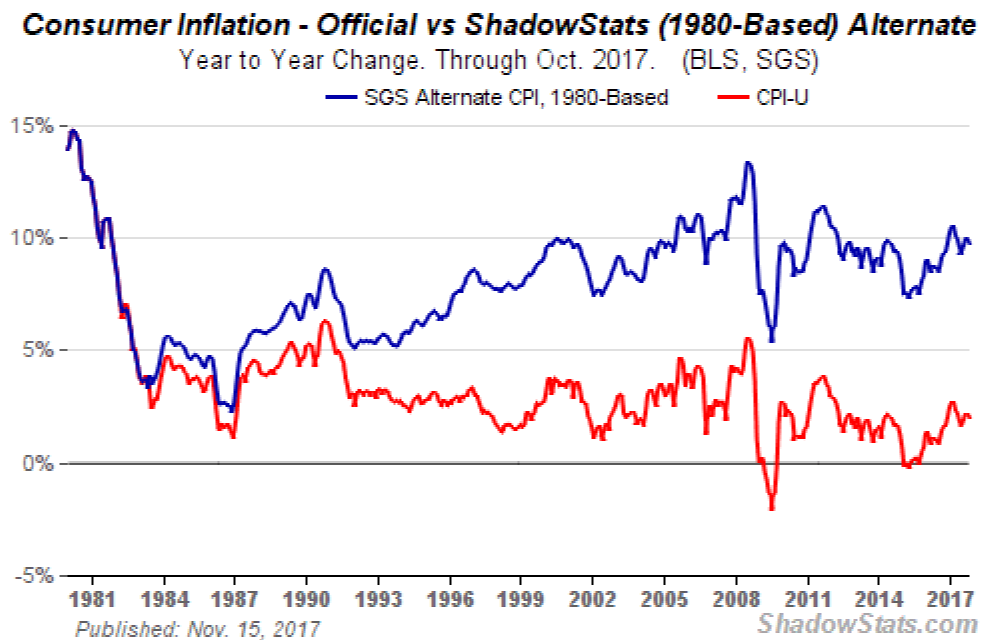
to boost current economic activity, how to stabilize global banking-system solvency, or otherwise how to slog their way out of a self-generated quagmire. That circumstance only can be exacerbated by intensifying economic and political uncertainties.

***Graph 8: Comparative Headline Year-to-Year Change, CPI-U vs. ShadowStats 1990-Based Alternate***




***Graph 9: Comparative Headline Year-to-Year Change, CPI-U vs. ShadowStats 1980-Based Alternate***

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

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

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

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

*The **C-CPI-U (Chain-Weighted CPI-U)** was an experimental measure—now set to go active, formally, with pending 2017 Tax Reform (see the Opening Comments)—where the weighting of components is fully substitution based. It generally shows lower annual inflation rate than the CPI-U and CPI-W. The latter two measures once had fixed weightings—so as to measure the cost of living of maintaining a constant standard of living—but now are quasi-substitution-based. Since it is fully substitution based, the series tends to reflect lower inflation than the other CPI measures. Accordingly, the C-CPI-U is the "new inflation" measure being proffered by Congress and the White House as a tool for reducing Social Security cost-of-living adjustments by stealth. Moving to accommodate the Congress, the BLS introduced changes to the C-CPI-U estimation process with the February 26, 2015 reporting of January 2015 inflation, aimed at finalizing the C-CPI-U estimates on a more-timely basis, and enhancing its ability to produce lower headline inflation than the traditional CPI-U.*

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

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***CPI-U.*** The Bureau of Labor Statistics (BLS) reported this morning, November 15th, that headline, seasonally-adjusted October 2017 CPI-U inflation increased month-to-month by 0.1% [up by 0.11% at the second decimal point], following gains of 0.5% [up by 0.55%] in September, 0.4% [up by 0.40%] in August and 0.1% [up by 0.11%] in July, "unchanged" at 0.0% [an actual decline of 0.02% (-0.02%)] in June, a monthly 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.

Unadjusted monthly October 2017 CPI-U declined by 0.06% (-0.06%), having gained by 0.53% in September and 0.30% in August, having declined in July by 0.07% (-0.07%), and having gained by 0.09% in June, 0.09% in May, 0.30% in April, 0.08% in March, 0.31% in February, 0.58% in January and 0.03% in December 2016.

Major CPI-U Groups. In the context of some recovery from hurricane-induced, surging gasoline prices in September 2017, the adjusted October 2017 CPI-U monthly inflation reflected declining energy costs,

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more than offset by gains in food and in "core" inflation (everything but food and energy). On an unadjusted basis, similar patterns of monthly change were seen, except for the aggregate inflation number, which declined.

Encompassed by the October 2017 CPI-U seasonally-adjusted monthly gain of 0.11% [down on an unadjusted basis by 0.06% (-0.06%)], October 2017 food inflation gained by 0.04% [up by 0.15% unadjusted], energy inflation declined by 0.98% (-0.98%) in October [down by 3.90% (-3.90%) unadjusted], while the adjusted October "Core" (ex-food and energy) inflation rate rose by 0.22% [up by 0.28% unadjusted].

Still running contrary to FOMC hopes and expectations, "Core" CPI-U inflation has yet to regain 2.0% in the current cycle, showing unadjusted year-to-year inflation of 1.77% in October 2017, versus 1.69% in September 2017, 1.68% in August 2017, 1.69% in July 2017, 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.

October 2017 seasonal adjustments for monthly gasoline inflation—usually reflective of the dominant pressure in energy prices—turned positive in July, August and September, having been heavily negative since February, turning a September 2017 CPI-U unadjusted monthly gain of 10.61% in gasoline prices to an adjusted monthly gain of 13.08%. The Department of Energy (DOE) had estimated an unadjusted monthly gain in September of 10.71%. In October 2017, seasonals muted an unadjusted a monthly decline 5.45% (-5.45%) in gasoline prices, to an adjusted decline of 2.44% (-2.44%). The DOE had estimated an unadjusted monthly decline in October gasoline of 5.1% (-5.1%).

While early-November 2017 retail gasoline prices (DOE) are running higher month-to-month versus October, by an order of magnitude of 2%, reflecting some stabilization from recent production and delivery disruptions tied to Hurricane Harvey, positive seasonal adjustments to November 2017 gasoline prices suggest a net-positive monthly impact of gasoline on the headline November CPI, both before and after the positive seasonal adjustment.

Year-to-Year CPI-U. Not seasonally adjusted, October 2017 year-to-year inflation for the CPI-U eased to 2.0% [2.04% at the second decimal point], versus gains of 2.2% [2.23%] in September 2017, 1.9% [1.94%] in August 2017, 1.7% [1.73%] in July 2017, 1.6% [1.63%] in June 2017, 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 November 2017 reporting, dependent on the seasonally-adjusted month-to-month change, versus the adjusted, headline gain of 0.21% in November 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 November 2017, the difference in November's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the unadjusted October 2017 annual inflation rate of 2.04%. Given an early guess of a 0.3% to 0.4% seasonally-adjusted monthly gain in November CPI-U, that would leave the annual CPI-U inflation rate for November 2017 at about 2.2%, plus-or-minus.

Quarterly CPI-U. On an annualized quarter-to-quarter basis, seasonally-adjusted CPI-U rose by 2.01% in third-quarter 2017, declined by 0.31% (-0.31%) in second-quarter 2017, having gained by 3.15% in first-

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quarter 2017, 3.04% in fourth-quarter 2016, 1.78% in third-quarter 2016, 2.33% in second-quarter 2016 and 0.11% in first-quarter 2016.

On an unadjusted, year-to-year basis, annual inflation by quarter was up by 1.97% in third-quarter 2017, versus 1.90% in second-quarter 2017, 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 an unadjusted 1.26% in 2016, versus 0.12% in 2015.

***CPI-W.*** The October 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 0.08%, following monthly gains of 0.66% in September, 0.46% in August and 0.10% in July, declines of 0.05% (-0.05%) in June and 0.20% (-0.20%) in May, 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 2017 and 0.29% in December 2016.

On an unadjusted basis, year-to-year CPI-W eased to 2.05% in October 2017, versus 2.31% in September 2017, 1.93% in August 2017, 1.64% in July 2017, 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. On an annualized quarter-to-quarter basis, seasonally-adjusted CPI-W rose by 2.14% in third-quarter 2017, having declined by 0.77% (-0.77%) in second-quarter 2017, having gained by 3.22% in first-quarter 2017, by 3.30% in fourth-quarter 2016, 1.54% in third-quarter 2016 and 2.35% in second-quarter 2016, having declined in first-quarter 2016 by 0.55% (-0.55%). On an unadjusted year-to-year basis, annual inflation by quarter was up by 1.96% in third-quarter 2017, versus 1.80% in second-quarter 2017, 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 unadjusted 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 with today's headline October 2017 reporting. Year-to-year change for the headline October 2017 C-CPI-U annual inflation came in at 1.89% versus downwardly revised readings [revised lower by 0.05% (-0.05%) for each month back through December 2016] in September 2017 of 2.17%, 1.77% in August 2017 and 1.46% in July 2017.

Quarterly C-CPI-U, Year-to-Year. On an unadjusted, year-to-year basis, annual inflation by quarter was up by a revised 1.80% in third-quarter 2017, versus 1.65% in second-quarter, 2.36% in first-quarter 2017, 1.50% in fourth-quarter 2016, 0.74% in third-quarter 2016, 0.73% in second-quarter 2016 and 0.76% in first-quarter 2016.

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

See today's *Opening Comments* and discussions in the earlier CPI *Commentary No. 721* and in the opening notes in the *CPI Section* of *Commentary No. 699* as to the most-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*, and, again, as discussed in today's *Opening Comments* with the proposed overhaul to federal income taxes.

**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 5.6% in October 2017, versus 5.8% in September 2017, 5.5% in August 2017, 5.3% in July 2017, 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 October 2017 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was at about 9.8% (9.78% at the second decimal point), versus 10.0% (9.98%) in September, 9.7% (9.67%) in August 2017, 9.4% (9.44%) in July 2017, 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.

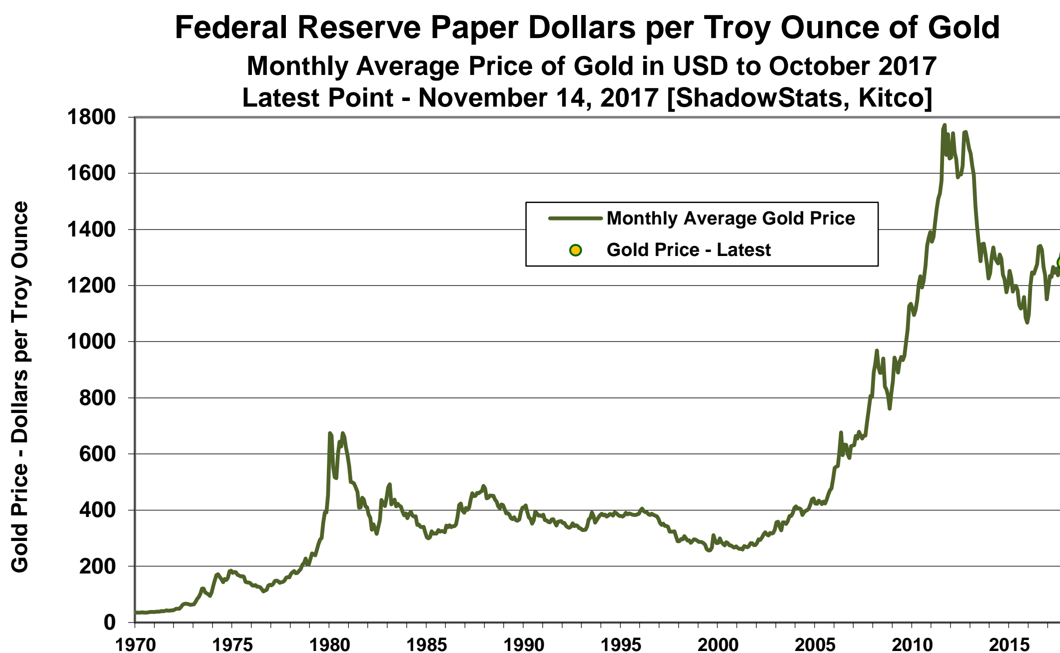
*Note: The ShadowStats-Alternate Consumer Inflation Measures largely have been reverse-engineered from BLS estimates of the anticipated impact on annual CPI inflation from various changes made to CPI reporting methodology since the early 1980s, as also incorporated in the CPI-U-RS series. That series 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 10: Monthly Average Gold Price in Dollars (Federal Reserve Notes)***




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

***CPI-U: GOLD at $2,695 per Troy Ounce, SILVER at $157 per Troy Ounce***
***ShadowStats: GOLD at $14,661 per Troy Ounce, SILVER at $853 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 $2,695 per troy ounce, based on October 2017 CPI-U-adjusted dollars, and $14,661 per troy ounce, based on October 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 October 2017 CPI-U inflation, the 1980 silver-price peak would be $157 per troy ounce and would be $853 per troy ounce in terms of the October 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

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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—October 2017—In the Context of a 0.23% Nominal Monthly Sales and Headline Consumer Inflation of 0.11%, Real Sales Gained 0.13%.*** (See the prior *RETAIL SALES* Section.)

***Real Average Weekly Earnings—October 2007—Month-to-Month Real Earnings Notched Higher, Third-Quarter Still Showing Flat/Minimal Contraction, with an Early Fourth-Quarter Negative Trend.*** *[Note: Details are plotted in the Executive Summary, Graph 3, and in the Consumer Liquidity Watch, Graph CLW-7.]* The headline estimate for October 2017 real average weekly earnings was published along with the release of the headline October 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 rose by 0.17% in October 2017, versus unrevised month-to-month declines of 0.25% (-0.25%) in September and 0.53% (-0.53%) in August and an unrevised monthly gain of 0.17% in July.

Year-to-year, the adjusted October 2017 real change rose to 0.54%, versus an unrevised gains 0.23% in September 2017, 0.47% in August 2017 and 0.67% in July 2017.

The second full estimate of annualized quarterly change in third-quarter 2017 real average weekly earnings also was unrevised, still a minimal annualized quarterly contraction of 0.01% (-0.01%). Fourth-quarter 2017 is on early track for an annualized contraction of 0.70% (-0.70%), based solely on the initial estimate for October 2017.

Second-quarter 2017 activity reflected an unrevised, annualized real quarterly gain of 4.43%, following 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 growth in the second estimate of third-quarter 2017 real earnings also was unrevised at 0.45%. Fourth-quarter 2017 is on early track for a 0.62% year-to-year gain, based solely on the initial estimate for October 2017.

Year-to-year change in second-quarter 2017 real earnings was unrevised at 0.83%, following an annual contraction of 0.29% (-0.29%) in first-quarter 2017, which had been 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 continuing major downside risk to headline real GDP reporting.

The 2015 rally in real annual income and the subsequent slowdown in latter 2016 and pickup, now slowdown in 2017 remain 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* in *Commentary No. 919-B*).

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 seen in October 2017 detail, where weaker, seasonally adjusted gasoline prices helped to generate a headline, seasonally-adjusted CPI-W gain of 0.08% month-to-month, versus the parallel CPI-U gain of 0.11%.

Again, *Graph 3* in the *Executive Summary* and *Graph CLW-7* in the *Consumer Liquidity Watch,* plot 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—October 2017—Annual Growth Continued Rising, Reflecting a Continued Surge in Nominal M3 Growth Relative to the CPI-U.*** 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 since 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 the reversal of trend continuing now through October 2017.

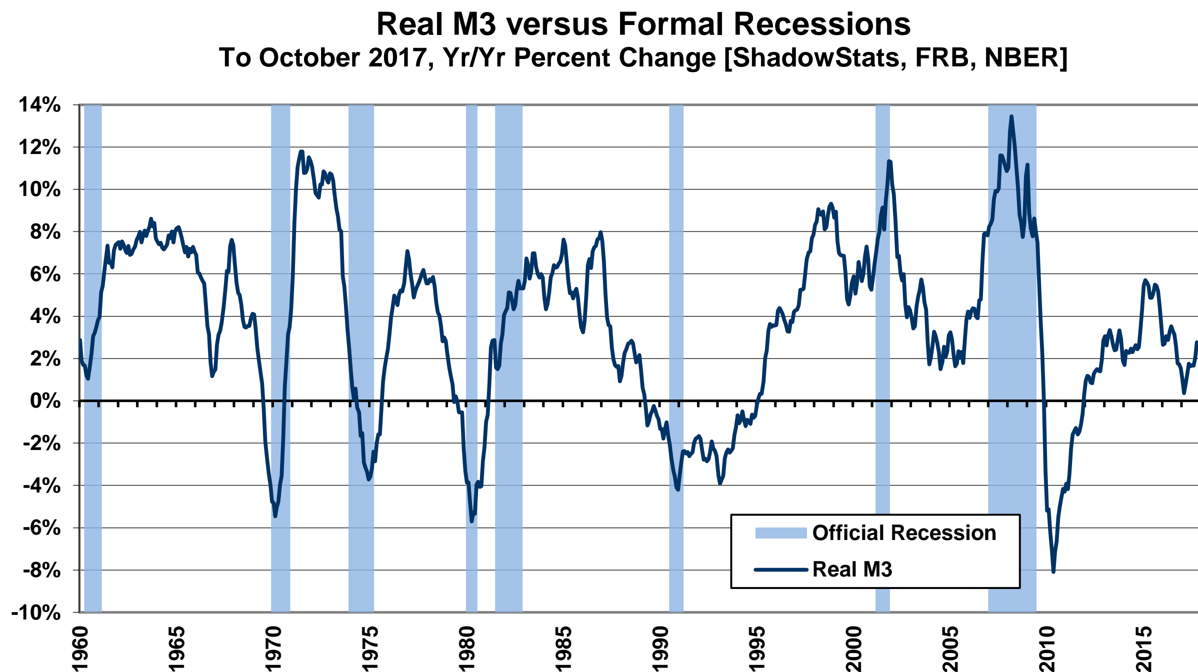
Shown in *Graph 11*—based on the October 2017 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in October 2017 M3 moved higher to 2.77%, versus a revised 2.03% [previously 2.07%] in September 2017 and a revised 1.67% [previously 1.70%] in August 2017. Those levels of activity remained down from unrevised peak growth of a 5.71% in February 2015. The firming in the October versus September number, reflected an increase in nominal October 2017 M3 annual growth to 4.81%, from 4.24% [previously 4.30%] in September 2017, 3.61% [previously 3.64%] in August 2017 and from a revised 3.41% [previously 3.39%] in July 2017 (see *Commentary No. 919-A*), with offsets from unadjusted headline CPI-U annual inflation of 1.73% in July 2017, 1.94% in August 2017, 2.23% in September 2017 and 2.04% in October 2017 (see the October 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 11: 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, from which 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. 907*, 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.

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**PRODUCER PRICE INDEX—PPI (October 2017)**

**October 2017 Final Demand PPI: Utter Nonsense Out of the Services Sector Boosted Annual PPI Inflation to a 69-Month High.** Where headline year-to-year PPI Final Demand (PPI-FD) inflation just hit a 69-month high of 2.79% in October 2017 (highest since January 2012), the recent relative strength in annual headline PPI-FD inflation has not reflected an overheating economy, despite continuing claims to the contrary by some at the Fed looking for reasons to boost interest rates.

The headline inflation issue in these data remains energy-price distortions of the last several years, which have been rigged heavily through the Federal Reserve's interest-rate jawboning and dollar-propping gimmicks, combined with recent OPEC-supply jawboning. That said, where headline October 2017, seasonally-adjusted monthly energy prices were "unchanged" month-to-month, with annual change slowing to 7.62% in October 2017, from 10.62% in September 2017, the bulk of the headline October inflation jump came from rising margins among gasoline dealers and wholesalers, due to the effects of plunging gasoline prices on existing inventories. Such is the regular nonsense seen with this particular inflation series, as discussed in the *Services-Side Nonsense Detail* section.

Separate from the definitional issues of the dominant services sector, the old-fashioned, headline seasonally-adjusted monthly goods inflation in October 2017 was 0.27%, versus the gasoline-spiked 0.72% gain in September 2017. The October increase reflected food prices up by 0.52%, with energy prices "unchanged" at 0.00%, and "core" inflation (ex-food and energy) up by 0.26%. Before seasonal adjustments, goods inflation gained 0.09% in the month, with food inflation up by 0.26%, energy prices down by 2.40% (-2.40%) and "core" inflation up by 0.62%. For the PPI-FD Goods sector, annual inflation of 3.23% in October 2017 was down from 3.32% in September 2017, and from the recent near-term peak of 4.12% in April 2017.

***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 is 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 June 2017 PPI revision, released with the October 2017 reporting, the seasonally-adjusted headline index level revised lower by 0.18% (-0.18%), with the monthly change revising from a month-to-month gain of 0.18% to an "unchanged" 0.00%. Net negative revisions of 0.09% (-0.09%) were seen in the goods sector and 0.18% (-0.18%) in the dominant services and services, with the minimally-weighted construction sector inflation revising higher by 0.09%. As usual, though, the internal numbers did not add up to provide a consistent picture, particularly in the context of seasonal adjustments. Most frequently data-consistency issues are generated on the dominant services-side of the reporting (again, 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](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, rather than as the hybrid measure of the headline Producer Price Index Final Demand, the aggregate headline series here (ShadowStats separates the analyses of those sectors by sub-category) 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 eight years of post-2008-panic data) to establish any meaningful relationship to general inflation or other economic or financial series.

***October 2017 Headline PPI Detail.*** The Bureau of Labor Statistics (BLS) reported November 14th, that the seasonally-adjusted, month-to-month, headline Producer Price Index Final-Demand (PPI-FD) inflation for October 2017 rose by 0.44% for the second month, versus gains of 0.44% in September, 0.18% in August, a revised gain of 0.09% [previously a decline of 0.09% (-0.09%)] in July, due to the five-month revision to June, now "unchanged" [previously a gain of 0.18%, initially up by 0.09%].

On a not-seasonally-adjusted basis—all annual growth rates are expressed unadjusted—year-to-year PPI-FD inflation in October 2017 jumped to a 69-month high of 2.79%, versus 2.62% in September 2017, 2.35% in August 2017, 1.90% in July 2017 and a revised 1.90% [previously 1.99%] in June 2017.

For the three major subcategories of the October 2017 PPI-FD [0.44% monthly, 2.79% annual inflation], headline monthly Goods inflation rose by 0.27%, Services "inflation" (profit margins) rose by 0.53% and Construction inflation increased by 0.51%, with respective unadjusted annual growth rates of 3.23%, 2.41% and 3.14%.

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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 October 2017 rose by 0.27%, following gains of 0.72% in September and 0.45% in August. There was positive impact on the aggregate goods headline reading from underlying seasonal-factor adjustments. Not-seasonally-adjusted, October inflation gained 0.09% month-to-month.

Unadjusted, year-to-year goods inflation in October 2017 showed an annual gain of 3.23%, following gains of 3.32% in September 2017 and 3.06% in August 2017.

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

- “Foods” inflation (weighted at 5.40% of the total index) jumped by 0.52% in October 2017, having been “unchanged” at 0.00% in September and having declined month-to-month in August by 1.28% (-1.28%). Seasonal adjustments were positive for the October headline change, which gained by 0.26% unadjusted. Unadjusted and year-to-year, annual October 2017 foods inflation rose by 2.64%, having gained by 1.22% in September 2017 and by 1.75% in August 2017.
- “Energy” inflation (weighted at 5.50% of the total index) was “unchanged” at 0.00% month-to-month in October 2017, having gained by 3.36% in September and by 3.26% in August. Seasonal adjustments were positive in October, with unadjusted energy inflation down by 2.40% (-2.40%) for the month. Unadjusted and year-to-year, October 2017 energy prices gained 7.62%, versus annual gains of 10.62% in September 2017 and 8.61% in August 2017.
- “Less foods and energy” (“Core” goods) monthly inflation (weighted at 22.91% of the total index) gained by 0.26% in October 2017, versus gains of 0.27% in September and 0.18% in August. Seasonal adjustments were negative for monthly core inflation, with unadjusted monthly October inflation up by 0.62%. Unadjusted and year-to-year, October 2017 “core” inflation rose to 2.34%, versus 2.17% in September 2017 and versus 1.99% in August 2017.

Final Demand Services (weighted at 64.12% of the Aggregate Index). Headline Final Demand Services inflation increased by 0.53% in October 2017, having gained by 0.35% in September and 0.09% in August. The overall seasonal-adjustment impact on headline services inflation was negative, with an unadjusted monthly gain of 0.79%. Year-to-year, unadjusted October 2017 services inflation was 2.41%, versus 2.06% in September 2017 and 2.06% in August 2017.

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

- “Services less trade, transportation and warehousing” inflation, or the “Other” category (weighted at 38.87% of the total index) monthly inflation here rose by 0.09% for the third straight month in October 2017, same as in September and August. Seasonal-adjustment impact on the adjusted October detail was negative, where the unadjusted monthly reading was a gain of 0.18%. Unadjusted and year-to-year, October 2017 “other” services inflation was up by 1.98%, versus 1.98% in September 2017 and 1.89% in August 2017.
- “Transportation and warehousing” inflation (weighted at 4.99% of the total index) rose by 0.77% in October 2017, having gained 0.96% in September and 0.35% in August. Seasonal adjustments were negative for the headline October reading, versus an unadjusted monthly gain of 1.21%.

Unadjusted and year-to-year, October 2017 transportation inflation rose by 3.36%, versus 3.31% in September 2017 and 1.58% in August 2017.

- "Trade" inflation (weighted at 20.26% of the total index) rose by 1.13% month-to-month October 2017, having gained 0.79% in September and having been "unchanged" at 0.00% August. Seasonal adjustments had a negative impact, where the unadjusted monthly change was 1.65%. Unadjusted and year-to-year, October 2017 trade inflation rose to an annual gain of 2.99%, versus 2.21% in September 2017 and 2.14% in August 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 0.51% in October 2017, following gains of 0.09% in September and 0.26% in August. The impact of seasonal factors on the October reading was neutral, as usual, where the unadjusted monthly gain also was 0.51%. 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 softened to 3.14% in October 2017, versus 3.43% in September 2017 and 3.34% in August 2017. The PPI annual change here recently 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, still by an order of magnitude of a at least a hundred basis points. Annual inflation in those measures, also, generally 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 *Commentary No. 919-A*).

***PPI-Inflation Impact on Pending Reporting of October 2017 New Orders for Durable Goods.*** As to the upcoming reporting of October 2017 New Orders for Durable Goods, monthly inflation (reported only on a not-seasonally-adjusted basis) for new orders for manufactured durable goods in October 2017 rose by 0.41% month-to-month, having gained 0.06% in September and 0.06% in August. Year-to-year annual inflation rose to 1.86% in October 2017, having gained 1.74% in September 2017 and 1.56% in August 2017. October 2017 durable goods orders (both nominal and real) will be reported and calculable on November 22nd, with coverage in *Commentary No. 922* of that date.

***Massive PPI Overhaul Due for Publication in February 2018.*** Announced initially the 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.

***[The* Hyperinflation Watch *begins on the next page.]***

## HYPERINFLATION WATCH

**Difficult Times Ahead.** Incorporated here by reference are *No. 859 Special Commentary*, which outlined difficulties facing the new Trump Administration upon its coming into office, as well as an approach to addressing meaningful economic stimulus for the United States in the context of developing a credible long-range solvency plan for the United States government; *Special Commentary No. 888*, which discussed evolving political circumstances that could impact the markets and the economy negatively; and the "Alert" as to potential pending financial-market turmoil, which was issued in *Special Commentary No. 904* (see also the related *Opening Comments* there). Those three areas remain in play, and circumstances remain far removed from a stable and happy circumstance for the country.

While a tax-reform package is before Congress and is being touted as legislation that should be enacted, it would have been interesting to see that in the context of a coordinated package tied to economic stimulus and long-range budget-deficit resolution. Such a circumstance awaits a later Congress, perhaps. The discussion on the C-CPI-U in the *Opening Comments* provides some context has to how the taxpayer is viewed by Congress in the current circumstance.

Stock-market indices are near record highs, while headline economic growth is just exploding, in some areas. The happy headline economic activity, however, has been tied heavily to recent and fleeting distortions tied to hurricane activity. As the disrupted data, such as employment and unemployment, return to stability in the next several months, market perceptions rapidly will fall back into an outlook for broadly deteriorating activity. As expectations there shift, so too will the outlook for action out of the Board of Governors of the Federal Reserve System's Federal Open Market Committee (FOMC).

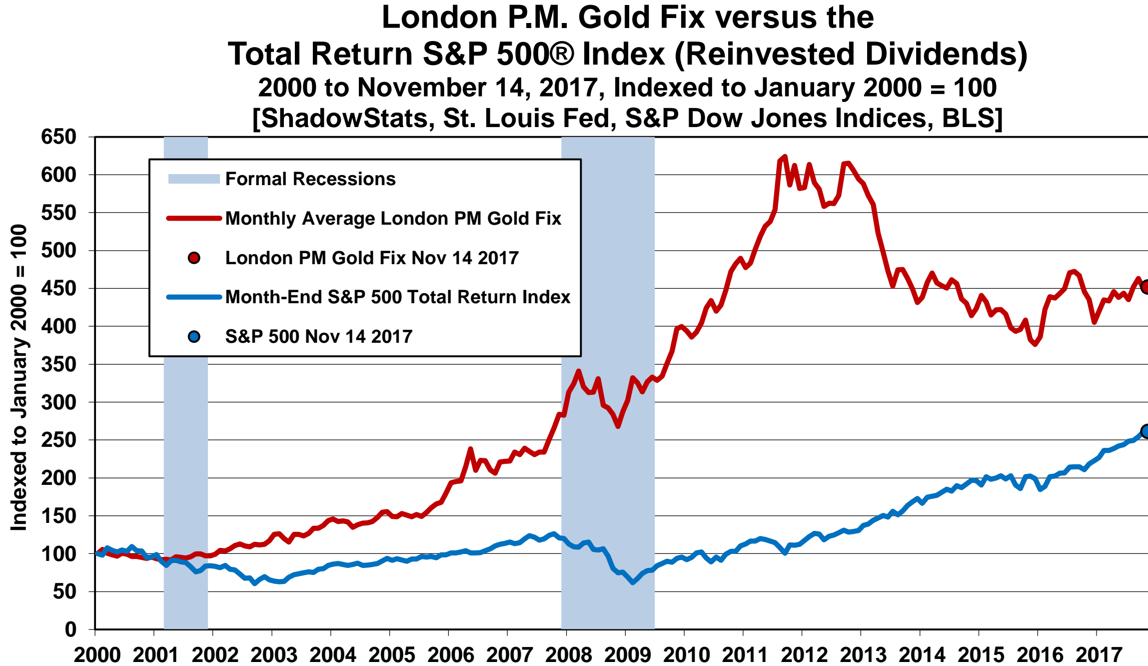
***Mounting Flight from the U.S. Dollar Should Foreshadow Further Spikes in Gold and Silver Prices, and Oil Prices, with Implications for Higher Domestic Inflation.*** As U.S. economic activity continues to weaken, expectations for future rate hikes and Fed balance-sheet liquidation will tend to reverse, as the FOMC, with either the current or new Fed Chair in place, will face and have to address renewed systemic-liquidity stresses. Weakening economic activity was a process well underway, before the impact of any natural disasters. As faltering activity regains its hold on the financial-market outlook, unfolding perceptions of that circumstance increasingly should savage the U.S. dollar, and as discussed frequently here, also should savage the domestic stock and credit markets. A confluence of unusual factors can lead to an extraordinary crisis. Surprisingly weak economic data in the next couple of months, in combination with any negative political surprises, offer such a potential for an extraordinary financial tempest.

The outlook for heavy dollar selling remains in place. Holding physical gold and silver remains the primary hedge for preserving the purchasing power one's wealth and assets, in manner that is liquid and portable. Please call me any time at (707) 763-5786 if you would like discuss unfolding market conditions or economic circumstances.

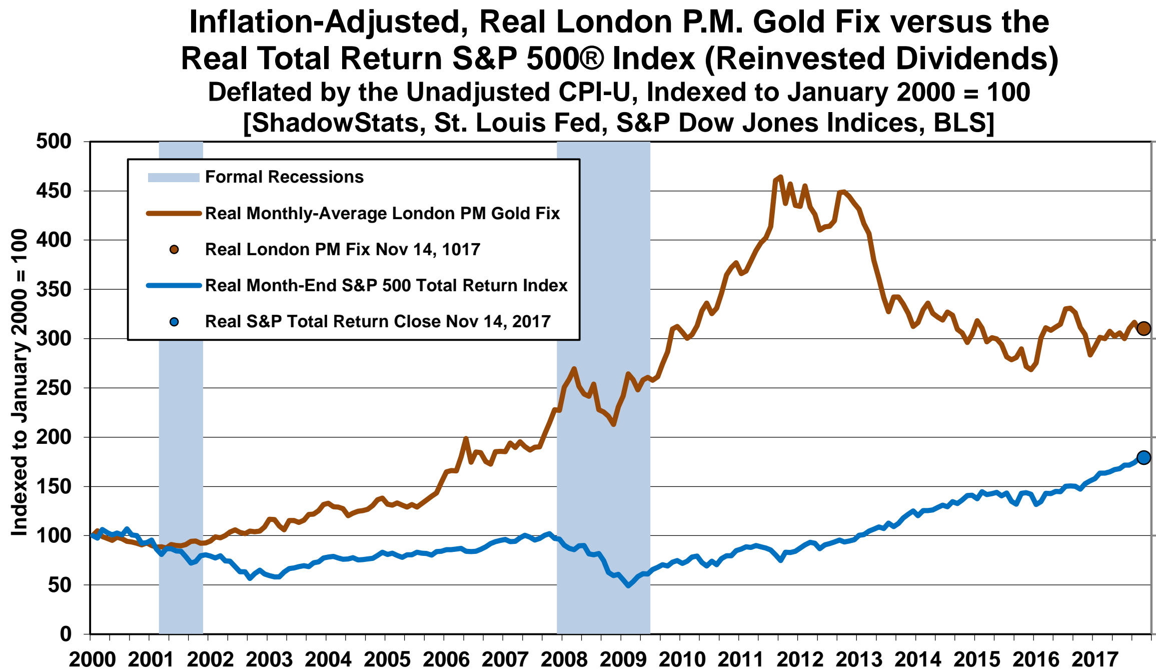
Special "Alerts" will be posted as needed. – *John Williams*

Following are updates of the various graphs usually found in the *Hyperinflation Watch.* It is interesting to note that the year-to-year change in the trade- or financial-weighted U.S. dollar is at a six-year low, see *Graph HW-4*, despite the current headline euphoria seen otherwise.

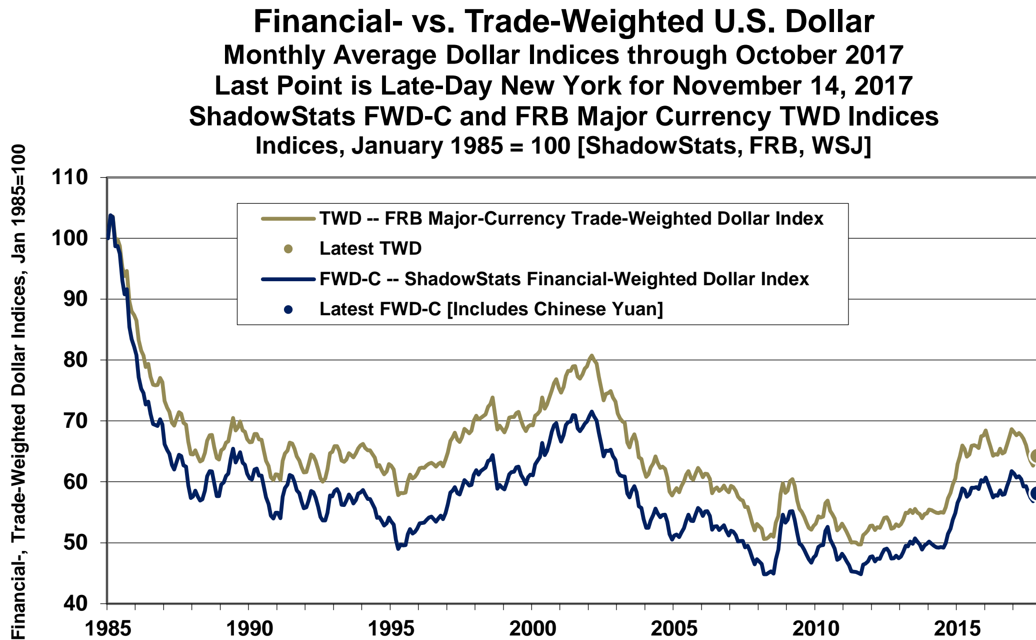
***Graph HW-1: Nominal Gold Price versus Nominal Total Return S&P 500***



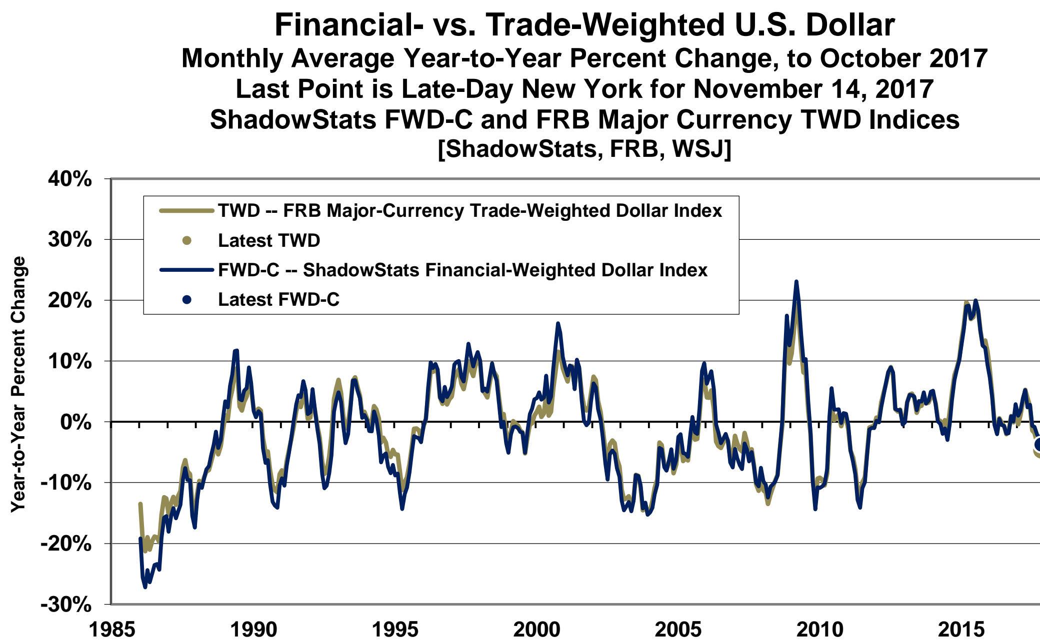

***Graph HW-2: Real Gold Price versus Real Total Return S&P 500***



***Graph HW-3: Financial- versus Trade-Weighted U.S. Dollar***




***Graph HW-4: Year-to-Year Change, Financial- versus Trade-Weighted U.S. Dollar***

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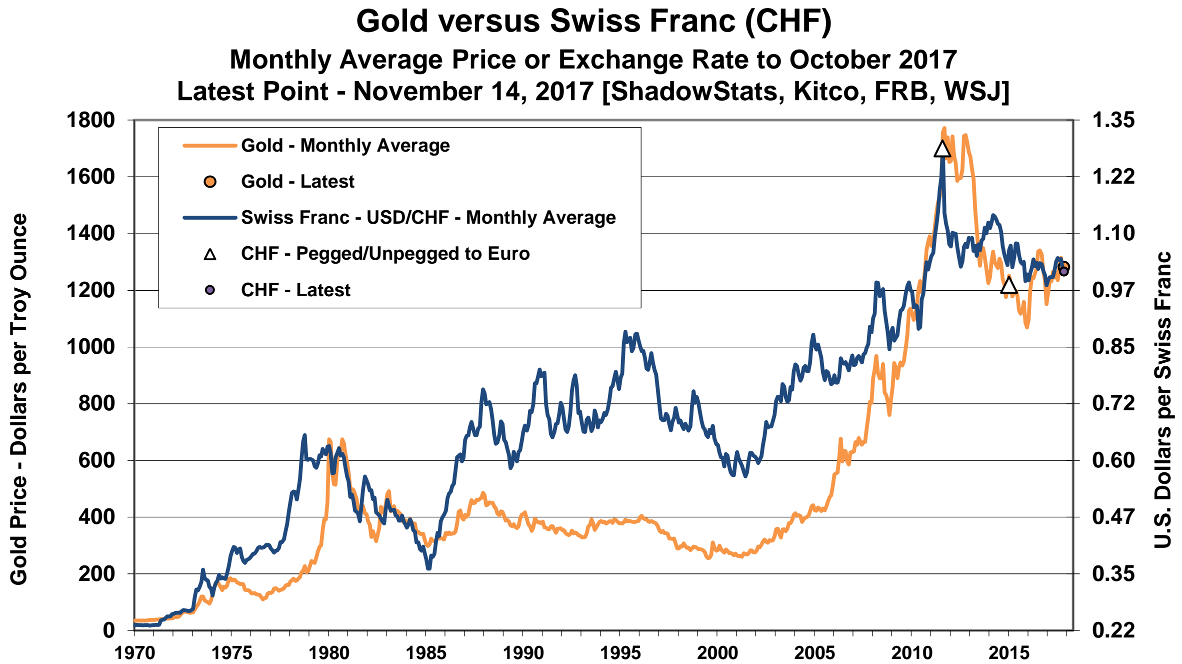
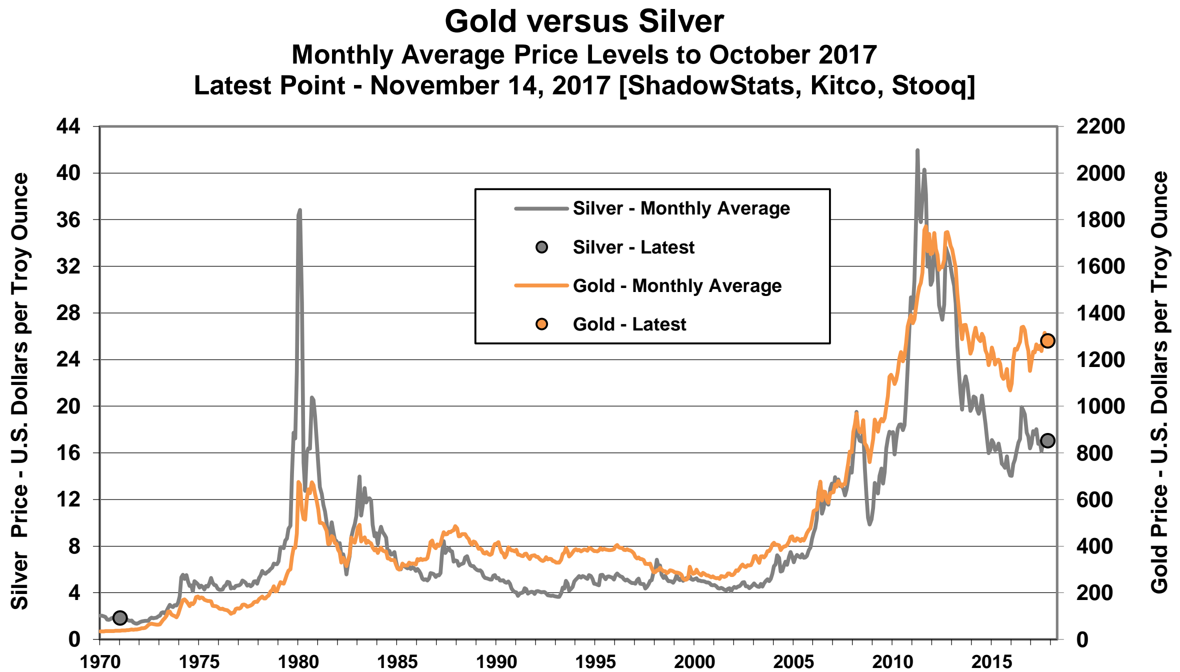
***Graph HW-5: Gold versus the Swiss Franc***




***Graph HW-6: Gold versus Silver***

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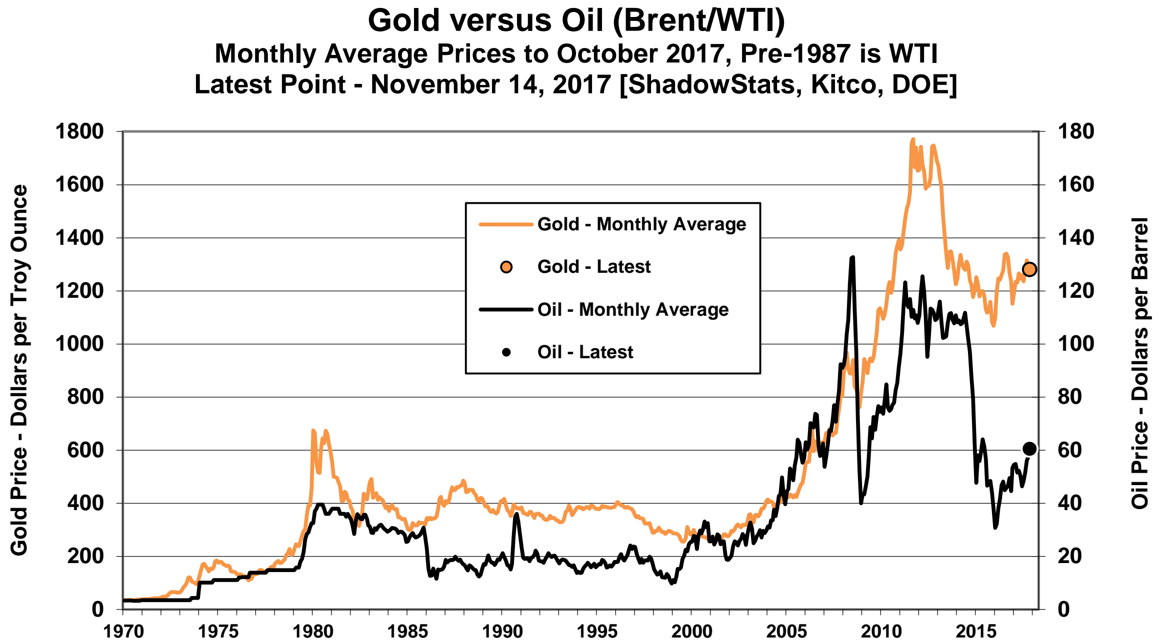
***Graph HW-7: Gold versus Oil***




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

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## CONSUMER LIQUIDITY WATCH

**CONSUMER LIQUIDITY CONDITIONS: INCOME, CREDIT AND RELATIVE OPTIMISM.**
*[The* CLW *has been updated for September Consumer Credit Outstanding, October Real Average Weekly Earnings and the Early November reading on the University of Michigan's Consumer Sentiment.]*

**Liquidity Stresses Continue to Mount, Amidst Rising Optimism, Aggravated Temporarily by Natural Disasters.** The U.S. consumer faces continuing financial stress, increasingly reflected in renewed softening of fundamental headline economic activity, including Payroll-Employment, Real Retail Sales of recent months (the headline September sales gains were spiked heavily by hurricane damages), home sales and related construction indicators, and ultimately as reflected in broader-based economic series such as Industrial Production. Where all of those measures face near-term, disaster-triggered reporting disruptions, liquidity stresses nonetheless have been intensified, at least temporarily, in hurricane-hit regions of the United States, where, for example, related September 2017 employment/ unemployment details were heavily disrupted/distorted (see *Commentary No. 915*) of October 6th.

***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

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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. 907*.

***Consumer Optimism: October Consumer Confidence and Sentiment Boomed, Early November Has Signaled a Pull-Back.*** This detail reflects the October 2017 readings of The Conference Board's Consumer-Confidence Index® (Confidence) and the October and Early-November readings of the University of Michigan's Consumer Sentiment Index (Sentiment) of November 10th. Reflected in *Graphs CLW-1* and *CLW-2*, both Confidence and Sentiment jumped sharply to multi-year highs in October, but the early-November Sentiment reading pulled back sharply, largely retrenching from its downwardly-revised October jump. A year ago September 2016 Confidence and Sentiment jumped and then plunged in October 2016, likely reflecting concerns as to the direction of the presidential race. Post-election, both measures rallied sharply, reflecting surges in consumer optimism into early-2017. Both series then topped and pulled back, with mixed numbers in August and September 2017, but with the October 2017 Sentiment measure showing an large jump, purportedly because consumers were willing to accept diminished prospects for their living standards (see *Commentary No. 916*)? The Conference Board blamed hurricane impact in Texas and Florida for the downturn in September 2017 Confidence, but those numbers also exploded into October 2017.

For both the Conference Board's seasonally-adjusted [unadjusted data are not available] Consumer-Confidence Index® (*Graph CLW-1*), and the University of Michigan's not-seasonally-adjusted Consumer-Sentiment Index (*Graph CLW-2*), 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, yet the still-high moving averages also had begun to falter in September, before the unusual October 2017 surges.

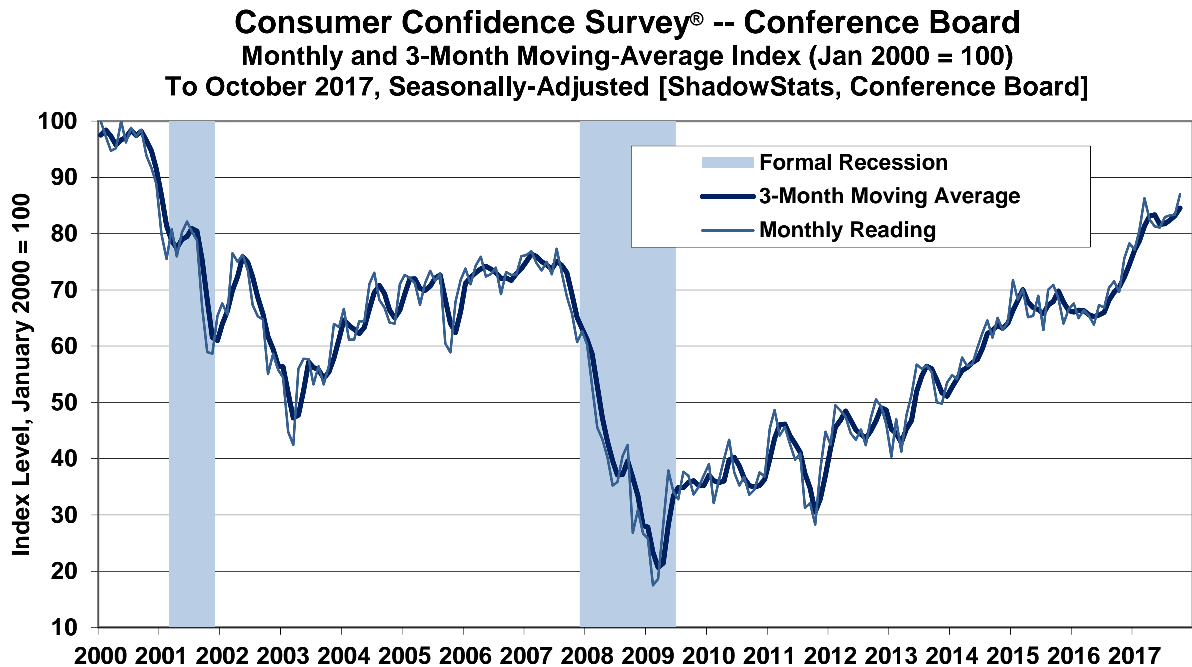
Showing the Consumer Confidence and Consumer Sentiment measures on something of a comparable basis, *Graphs CLW-1* to *CLW-3* reflect both measures re-indexed to January 2000 = 100 for the monthly reading. Standardly reported, the Conference Board's Consumer Confidence Index® is set with 1985 = 100, 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. Headline financial and economic reporting in the months ahead should continue as increasingly-negative and unstable. With near-term headline financial and economic reporting suggestive of a renewed and intensifying downturn, successive negative hits to both the confidence and sentiment readings are increasingly likely in the near future, despite the artificial, headline-spiked October 2017 readings. Again, they likely were built upon some temporary or faux, hurricane-boosted employment gains from the household survey, which already have begun to unwind (see *Commentary No. 919-B*).

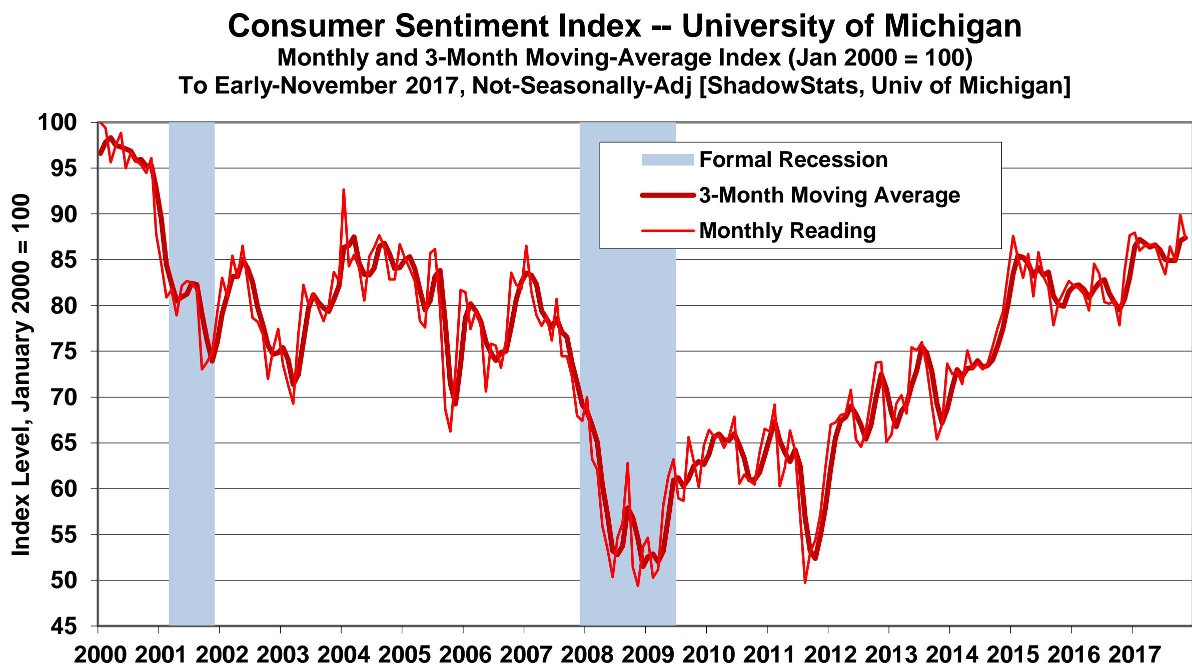
Broadly, though, the harder, financial consumer measures remain well below, or are inconsistent with, periods of historically-strong economic growth as suggested by headline GDP growth in 2014, for second-and third-quarter 2015 and for third-quarter 2016 and into third-quarter 2017. Beyond having

happy feelings about the future, consumers still need actual income, cash-in-hand or credit in order to increase their spending.

***Graph CLW-1: Consumer Confidence (2000 to 2017)***




***Graph CLW-2: Consumer Sentiment (2000 to 2017)***




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 CLW-3*—plotted for the last

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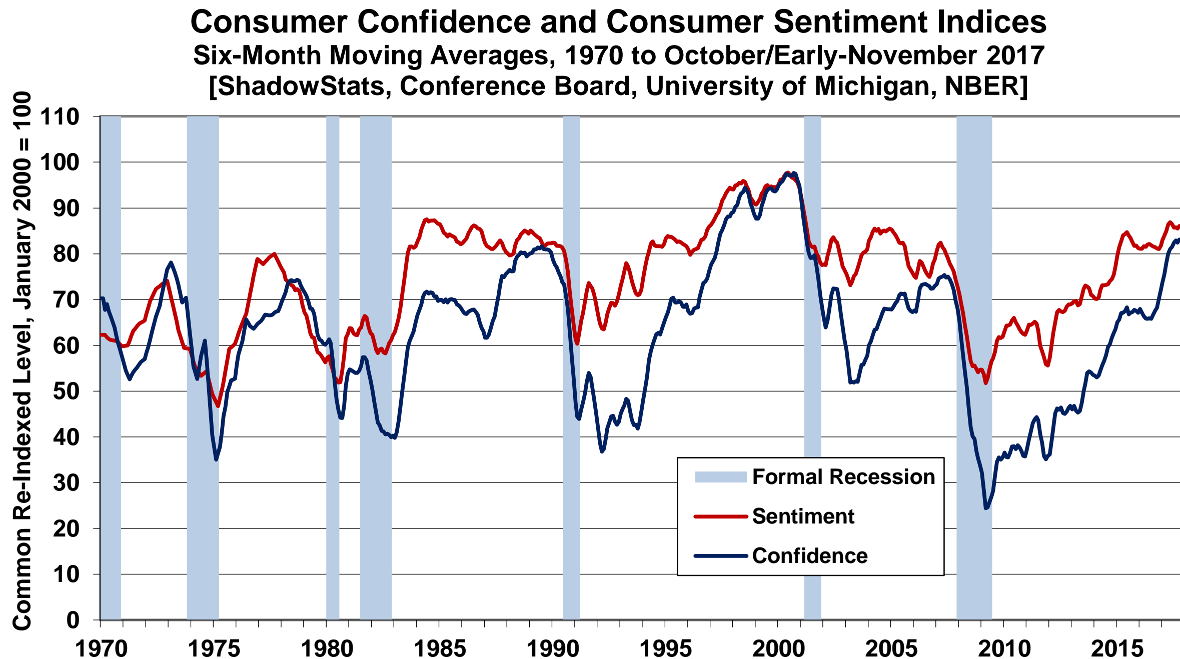
47 years—the latest readings of Confidence and Sentiment recently have recovered levels seen in periods of normal, positive economic activity of the last four decades, with their six-month moving averages at levels last seen going into the 2001 recession, although they appear to be topping out.

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

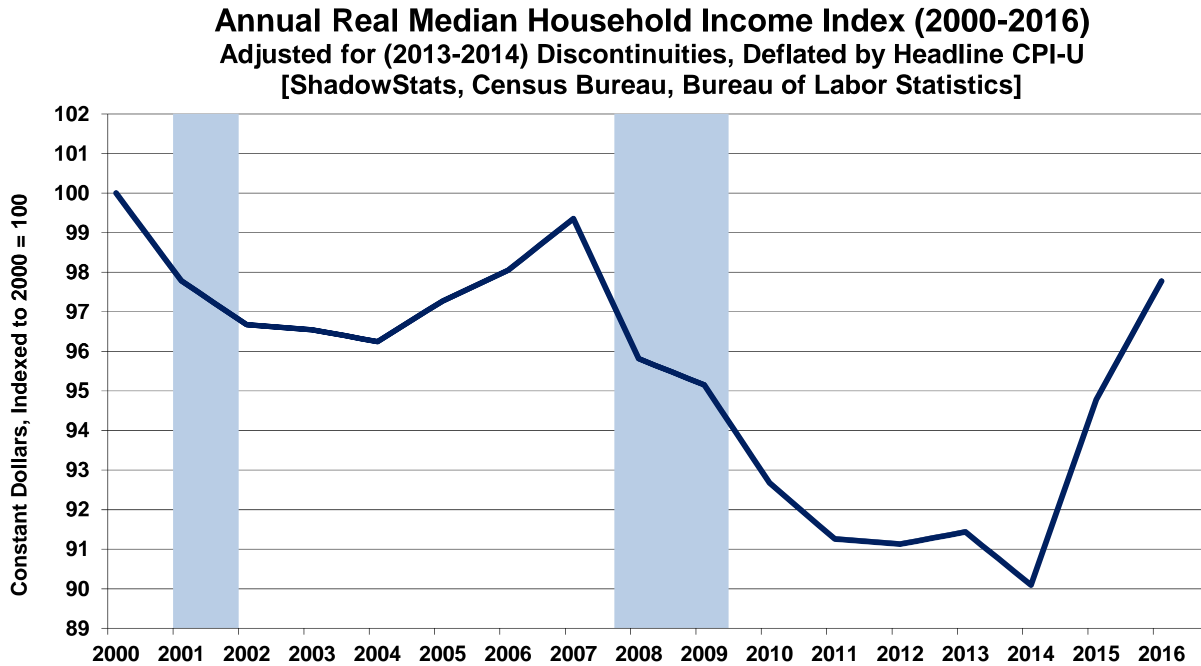



***2016 Annual Real Median Household Income Still Was Below Its 2007 Pre-Recession High, Below Activity in the Late-1990s, About Even with the Mid-1970s.*** The measure of real monthly median household income, which has been provided by www.SentierResearch.com, generally can be considered as a monthly version of the annual detail shown in *Graph CLW-4*, based on the annual detail recently released by the Census Bureau and as discussed the *Opening Comments* of *Commentary No. 909*. The 3.16% headline gain in 2016 real annual median household income for 2016 left the level of income not only below that seen at the purported pre-recession peak of 2007, but also below levels seen in the late-1990s, and minimally above activity see in the mid-1970s (see *Graph OC-1* in *No. 909*). The Sentier details, as far as they go, from January 2000 to May 2017, suggested annual real median income was on track for further increase in 2017, having also indicated the 2015 and 2016 annual increases.

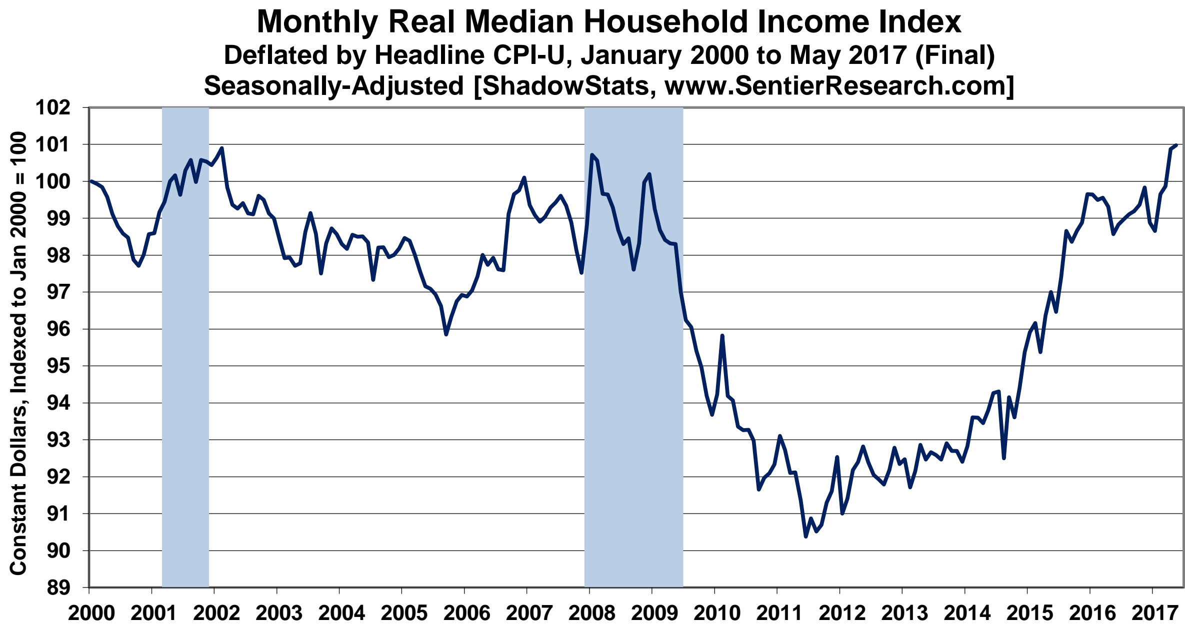
***Last Monthly Estimate Showed Stagnating Monthly Real Growth.*** As last reported by Sentier Research, May 2017 Real Median Household Income was statistically unchanged, despite a boost from falling gasoline prices. Discussed in *General Commentary No. 894*, and in the contexts of then-faltering gains 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%). That followed a statistically-significant monthly gain of 1.00% in April 2017. Shown in *Graph CLW-4*, such enabled May 2017 real monthly median household income to hold a level regained in April and otherwise last seen 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 CLW-5*). The May detail, however, may have been the final reporting of the monthly series (see the *Special Note* that follows).

***Graph CLW-4: Annual Real Median U.S. Household Income (1967 to 2016)***




***Graph CLW-5: Monthly Real Median Household Income (2000 to 2017) Index, January 2000 = 100***

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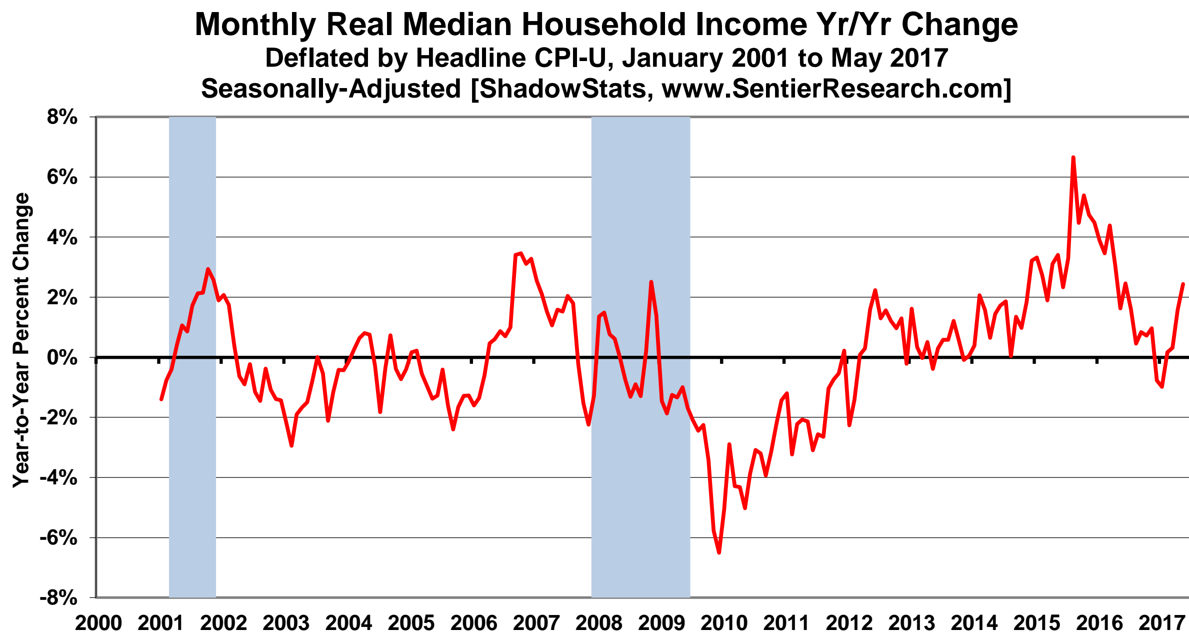
Where real monthly median income plunged into the headline trough of the economic collapse in 2009, it did not then rebound in tandem with the headline GDP activity. When the GDP purportedly started its solid economic recovery in mid-2009, the monthly household income numbers nonetheless plunged to new 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 had the potential to resume turning down anew, as the headline pace of monthly consumer inflation picked up anew, with the August 2017 CPI.

***Graph CLW-6: Monthly Real Median Household Income (2000 to 2017) Year-to-Year Change***




Nonetheless, the most-recent recent “rebound” reported in the series still 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 was 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.

***Differences in the Monthly versus Annual Median Household Income.*** The general pattern of relative monthly historical weakness has been seen in the headline reporting of the annual Census Bureau numbers, again, shown in *Graph CLW-4*, with 2014 real annual median household income having hit a ten-year low, and, again, with the historically-consistent 2015 and 2016 annual number still holding below the 2007 pre-recession high. The Sentier numbers had suggested a small increase in 2014 versus 2013 levels, low-inflation induced real increases in 2015 and 2016. Allowing for the direction difference in 2014, and continual redefinitions and gimmicks in the annual series (again, see the *Opening Comments* of *Commentary No. 909*) the monthly and annual series had remained broadly consistent, although based on separate questions within the Consumer Population Series (CPS), as conducted by the Census Bureau.

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Where Sentier 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.

***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.

***Graph CLW-7: Real Average Weekly Earnings, Production and Nonsupervisory Employees, 1965-to-Date***
**(Same as Graph 3 in the Executive Summary)**

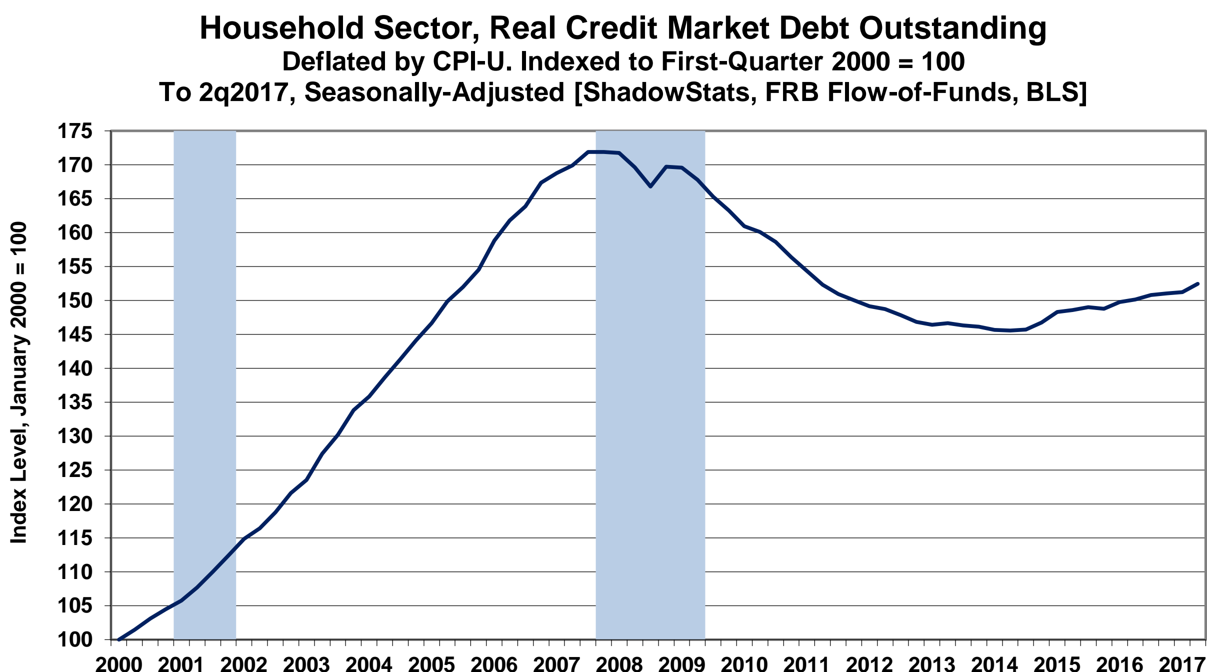
***Real Average Weekly Earnings—October 2007—Month-to-Month Real Earnings Notched Higher, Third-Quarter Still Showing Flat/Minimal Contraction, Early Fourth-Quarter Trend Negative.*** For the production and nonsupervisory employees category—the only series for which there is a meaningful history (see the full discussion on in today's *Reporting Detail* and *Graph 3* in the *Executive Summary*), the regularly-volatile, real average weekly earnings rose month-to-month in October 2017 with a small

quarterly contraction already in place for in third-quarter 2017 activity, and a deepening quarterly contraction the early-trend for fourth-quarter 2017.

*Graph CLW-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 CLW-8: Household Sector, Real Credit Market Debt Outstanding (2000 through Second-Quarter 2017)***




Consider *Graph CLW-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 second-quarter 2017, released on September 21st. Household Sector, Real Credit Market Debt Outstanding in second-quarter 2017 still was down by 11.3% (-11.3%) from its pre-recession peak of third-quarter 2007. That was against an initial first-quarter 2017 decline of 11.5% (-11.5%), recently revised to 11.3% (-11.3%). The visual uptick in the latest point in *Graph CLW-8* resulted from a lowered estimate of first-quarter activity (consumer credit revised lower by more than the upside revision

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mortgages), with the headline second-quarter inflation-adjusted level of activity boosted by a relatively-rare, annualized quarterly contraction in the seasonally-adjusted second-quarter CPI-U.

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 CLW-9* to *CLW-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 September 2017 reporting, *Graph CLW-9* of monthly Consumer Credit Outstanding is a subcomponent of *Graph CLW-8* on real Household Sector debt. Where *Graph CLW-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 CLW-10) and year-to-year change (*Graph CLW-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 upside move in the not-seasonally-adjusted consumer credit reflected a seasonal pattern, the pace of year-to-year growth has continued to slow sharply, suggesting some tightening of credit conditions. Adjusted for discontinuities and inflation, ex-student loans, consumer credit outstanding in September 2017 was down from its December 2007 pre-recession peak by 15.2% (-15.2%) [that previously had been down by 12.3% (-12.3%) in June 2017, before a recent downside revision to the last five years of activity]. Year-to-year real growth shown in *Graph CLW-11* tends to resolve most of the monthly distortions in the not-seasonally-adjusted data.

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

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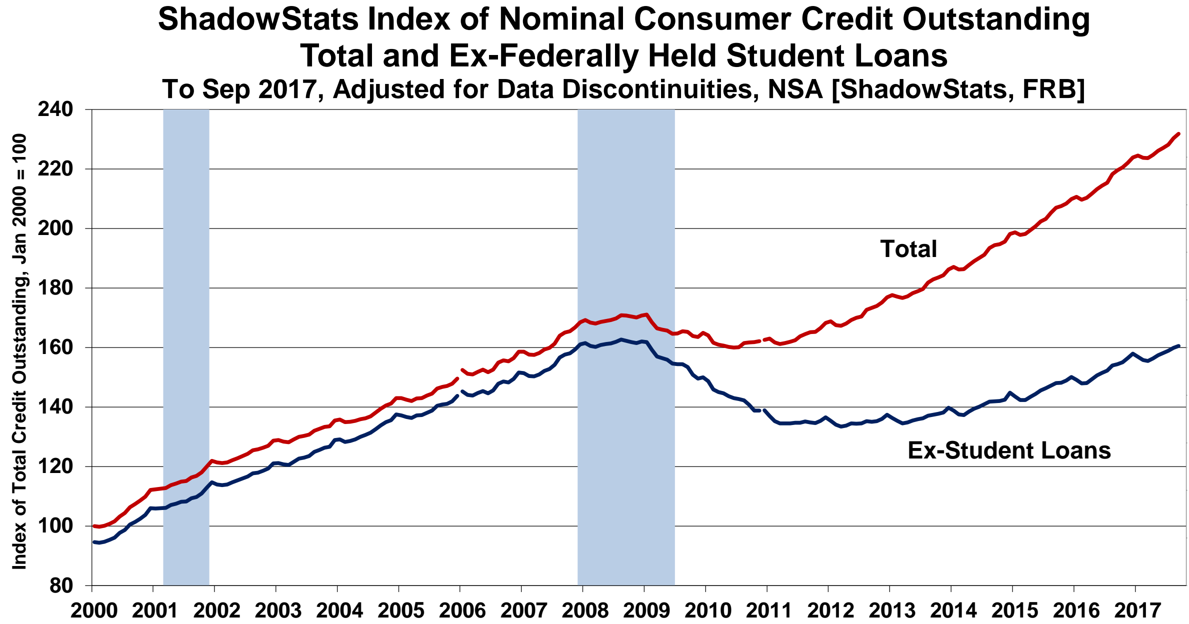
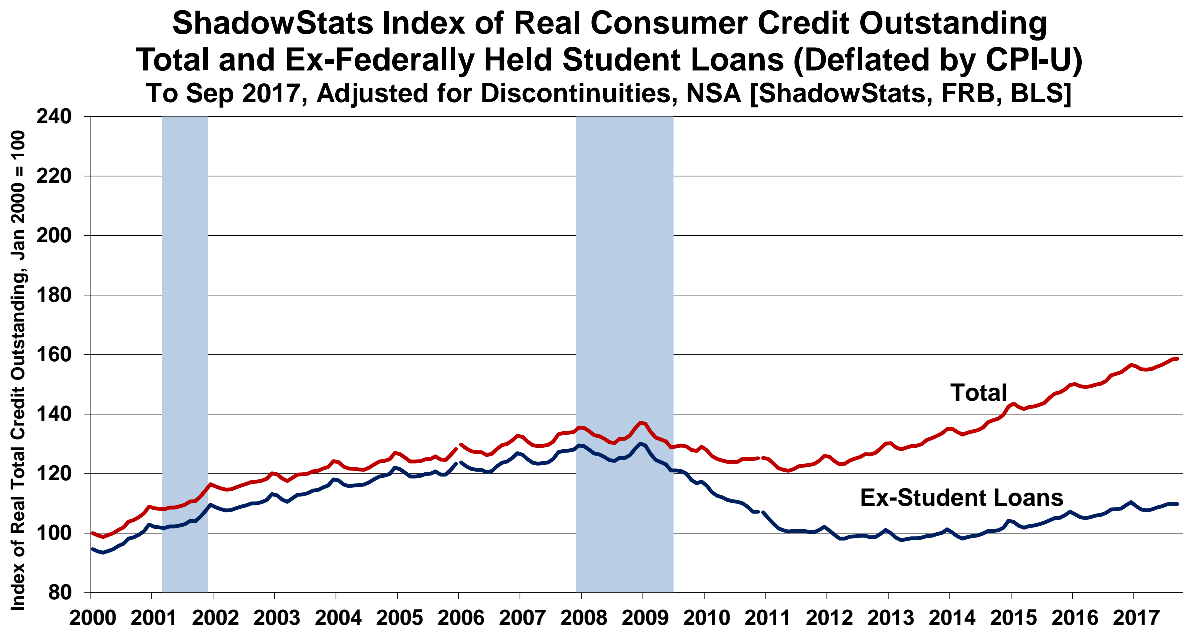
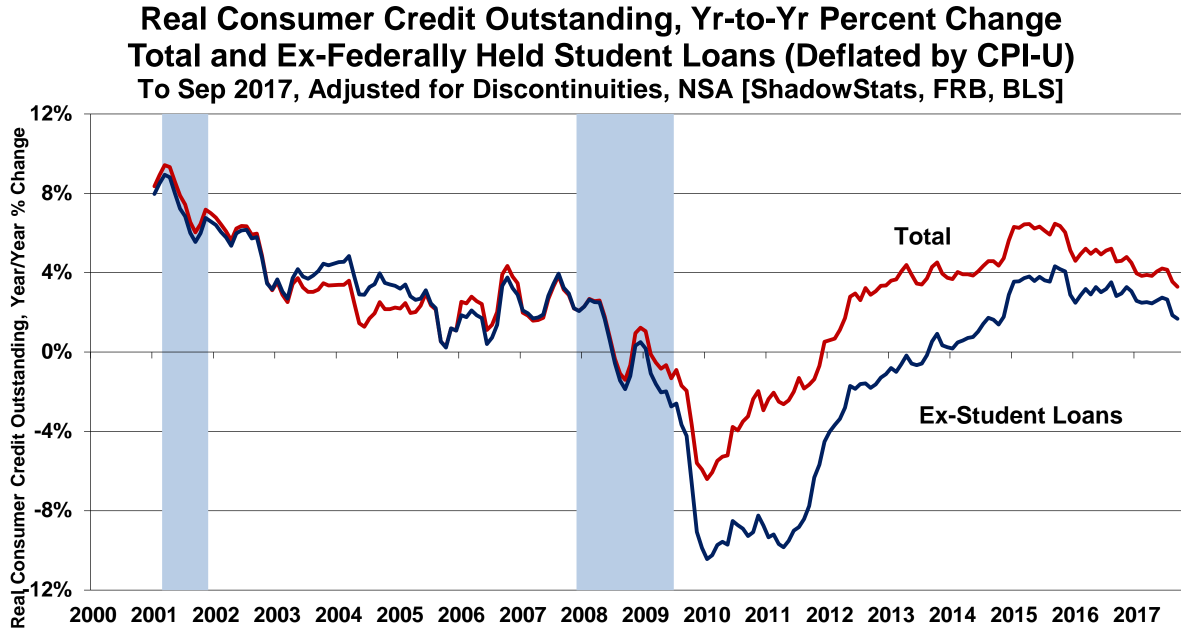
***Graph CLW-9: Nominal Consumer Credit Outstanding (2000 to 2017)***




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



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

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## WEEK, MONTH AND YEAR AHEAD

**Economic and Financial-Market Outlooks Continue to Darken; Deteriorating Domestic and Global Political Circumstances Continue.** Irrespective of continued nonsense reporting of the GDP and extreme hurricane-related distortions to recent household-survey employment and unemployment detail, more-substantive economic reporting continues to show the broad U.S. economy in near-term, deteriorating non-expansion. The financial markets remain at extraordinarily-high risk of panicked declines. Holding physical gold and silver remain the ultimate hedges—stores of wealth—for preserving purchasing power of one's assets, in the context of liquidity and portability, as discussed in today's (November 15th) *Hyperinflation Watch*, which speaks for itself. Brief references other recent *Hyperinflation Watch* and *Special Comments* follow.

Other for those references and language changes in the *Pending Releases* paragraphs, language changes here from the prior *Commentary* are minor. Please call (707) 763-5786, if you would like to discuss current circumstances, or otherwise. *Best wishes – John Williams*

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***Recent* Hyperinflation Watch *and* Special Comments.** Previous background to the markets and potential near-term FOMC activity have been reviewed recently in the *Hyperinflation Watch* of *Special Commentary No. 918-B* of October 30th, with the nomination for the new Fed Chairman, touched upon in the *Hyperinflation Watch* *Commentary No. 919-A* of November 3rd.

Discussed in *Hyperinflation Watch* of *Commentary No. 909*, given the continuing and broadening weakness in the U.S. economy and shifting political instabilities/circumstances in Washington, mixed pronouncements of sharp, near-term rate hikes and aggressive balance-sheet liquidation remain unlikely to solidify as promised. Accordingly, selling pressure against the U.S. dollar still should re-intensify, shortly, pressuring inflation and the prices of precious metals on the upside. Increasingly, foreign capital should flee the U.S. equity and credit markets at an accelerating pace.

In the context of the *Opening Comments* and *Hyperinflation Watch* of the August 14th *Special Commentary No. 904* and the *Opening Comments* of *Commentary No. 905*, underlying reality remains a weakening and vulnerable, seriously-impaired U.S. economy, as seen, for example with the latest employment and construction detail, and in likely weak data in the week ahead, all amidst continuing domestic and global political instabilities and unfolding natural disasters.

Unfolding circumstances still threaten the promised shift in FOMC policy, combined with the mounting political discord discussed in *Special Commentary No. 904* (see also the *Opening Comments* of *Commentary No. 901* and *Special Commentary No. 888*), odds continue to mount for intensifying financial-market turmoil in the near future, particularly as would be triggered by a market-related, intensifying heavy sell-off in the U.S. Dollar.

Broad economic activity never recovered fully 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, had 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 preventting 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.

Generally, 2017 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, confirmed that historical activity in recent years has been overstated and/or that it was turning down anew, particularly in 2015, with the availability of better-quality historical detail. Again, that is despite some recent near-term improvement in 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 14.4%.

Discussed in *No. 859 Special Commentary*, the Trump Administration continues to face extraordinarily difficult times, but still 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 and continuing 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 intensify well before the 2018 Congressional Election will have any chance to stabilize the political outlook for economic policy.

*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 or so, plus recent* Special Commentaries *and others covering a variety of non-monthly issues, including annual benchmark revisions, dating back through the beginning of 2017. Please Note: Complete ShadowStats archives back to 2004 are found at www.ShadowStats.com (left-hand column of home page).]*

*Commentary No. 919-B* (November 6th) provided more in-depth detail on the October 2017 labor detail.

*Commentary No. 919-A* (November 3rd) provided initial detail and background on October labor data, and reviewed the October 2017 Conference Board Help Wanted OnLine® Advertising, the September Cass Freight Index™, Trade Deficit and Construction Spending, and updated Monetary Conditions.

*Special Commentary No. 918-B* (October 30th) provided a more comprehensive review of the initial third-quarter 2017 GDP detail, along with update versions of the *Hyperinflation Watch* and *Consumer Liquidity Watch*.

*Advance Commentary No. 918-A* (October 27th) provided a brief summary of the headline detail of the first or "advance" estimate of third-quarter 2017 GDP.

*Commentary No. 917* (October 26th/27th) reviewed September Industrial Production, New Orders for Durable Goods, New Residential Construction (Housing Starts and Building Permits) and New- and Existing-Home Sales.

*Commentary No. 916* (October 20th) reviewed the September 2017 Retail Sales details along with the headline Consumer and Producer Price Indices for September.

*Commentary No. 915* (October 6th) reviewed the September 2017 Employment and Unemployment details, along with September 2017 monetary conditions.

*Commentary No. 914* (October 5th) reviewed the August 2017 Trade Deficit and Construction Spending, along with September 2017 detail on the The Conference Board Help Wanted OnLine® Advertising for August 2017, in the context of disruptions from hurricanes.

*Commentary No. 913* (September 28th) reviewed the third-estimate of second-quarter 2017 GDP, with a further consideration of some unusual economic reporting in the near future.

*Commentary No. 912* (September 27th) reviewed likely impact on economic reporting from the so-far, highly destructive hurricane season. Headline details of August New- and Existing-Home Sales and New Orders for Durable Goods were covered.

*Commentary No. 911* (September 19th) covered detail on August New Residential Construction, including monthly Building Permits and Housing starts, and the August Cass Freight Index™.

*Commentary No. 910* (September 15th) reviewed the August 2017 releases of Industrial Production and nominal and real Retail Sales.

*Commentary No. 909* (September 14th) assessed the annual release of 2016 Real Median Household Income, along with a review of August Consumer Price Index (CPI) and the Producer Price Index (PPI) and an updated *Alert* on the financial markets

*Commentary No. 908-B* (September 6th) provided extended detail of the August 2017 Labor and Monetary conditions and July 2017 Construction Spending, along with coverage of the July 2017 Trade Deficit and the initial estimate of the 2017 Payroll Employment benchmarking.

*Advance Commentary No. 908-A* (September 1st) provided summary coverage of the headline reporting on August 2017 Labor and Monetary conditions and July 2017 Construction Spending.

*Special Commentary No. 904* (August 14th) issued an “Alert” on the financial markets (including U.S. equities, the U.S. dollar gold and silver, as well as FOMC policy), in the context of historical activity and unfolding circumstances of deteriorating economic and political conditions. Separately, headline details were reviewed for the July Consumer Price Index (CPI) and the Producer Price Index (PPI).

*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.

*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. 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™.

*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.

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*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: *Updated* - Index of Industrial Production (October 2017).** The Federal Reserve Board will publish its estimate of October 2017 Industrial Production, tomorrow, Thursday, November 16th, with coverage in *Commentary No. 921* of November 17th. While there may be some production boosts for replacement automobiles and other goods destroyed in the hurricanes, as well as from some recovered petroleum production and processing, basic trends should remain to the downside in the months ahead, with continuing non-recovery in the manufacturing sector. Nonetheless, consensus expectations are strongly to the upside for October production (order of magnitude for a monthly gain of 0.5%, plus-or-minus), tied particularly to the hurricane-recovery areas just mentioned.

***Updated* - New Residential Construction—Housing Starts, Building Permits (October 2017).** The Census Bureau will release the October 2017 estimate of New Residential Construction, including Housing Starts and Building Permits on Friday, November 17th, with detail covered in *Commentary No. 921* of that date.

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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, as seen increasingly in recent months (see *Commentary No. 911*). That said, in the wake of frequent, although irregular extreme monthly swings, almost anything remains possible in this unstable series in a given month, despite what are current, strongly-positive consensus expectations for the headline reporting 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. Both Housing Starts and Building Permits showed patterns of deepening quarter-to-quarter contractions for first-, second- and third-quarter 2017 activity, with respective headline September activity down by 48.1% (-48.1%) and by 42.6% (-42.6%) 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. Again, these series remains subject to regular and extremely-large, prior-period revisions.

Discussed in the *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, other than for some likely insurance-funded activity replacing hurricane-destroyed structures.

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