

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

**COMMENTARY NUMBER 399**  
**October Retail Sales, PPI**

**November 15, 2011**

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**Retail Sales Gain Not Statistically Meaningful**

**PPI Inflation Showed High Oil Price Effects  
Still Spreading in Broad Economy**

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*PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Wednesday, November 16th, covering October CPI and industrial production. That will be followed by a Commentary on the 17th covering October housing starts. The November 16th and 17th issues also will include Special Commentaries, discussing respectively the actual U.S. budget deficit and underlying U.S. economic reality.*

*—Best wishes to all, John Williams*

**Opening Comments and Executive Summary.** With two pending *Special Commentaries*, tomorrow (November 16th) on U.S. budget deficit reality, and November 17th on underlying economic reality, today's comments are limited. The general outlooks for the economy, inflation and for systemic solvency are not changed from those discussed in the [\*Hyperinflation Special Report \(2011\)\*](#) and in recent *Hyperinflation Watch* sections. The *Hyperinflation Watch* section will be published next and fully updated in the November 17th *Special Commentary*.

**October Retail Sales.** The 0.5% headline monthly gain in October retail sales was not statistically meaningful, as has been the case in five of the last six months. Seasonal-adjustment distortions also continue, with the severe downturn having warped regular patterns of seasonal activity. There have been no indications of an improvement in consumer liquidity conditions that could support a sustainable rebound in consumer spending. That said, monthly retail sales likely will remain in positive territory, when deflated by the October CPI-U (due for releases tomorrow, November 17th).

**October Producer Price Index (PPI).** Headline October PPI inflation declined by 0.3% for the month, reflecting a short-lived monthly decline in oil prices. Having jumped by 0.8% for the month in September, this series tends to be highly volatile.

Unadjusted annual inflation in finished goods declined from 6.9% in September to 5.9% in October. Yet, reflecting the continued spread of the effects of higher oil prices into the broad economy, annual “core” inflation—net of food and energy—rose from 2.5% in September to 2.8% in October.

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## REPORTING DETAIL

### RETAIL SALES (October 2011)

**October Retail Sales Gain Not Statistically Meaningful, Distortions Continued from Poor-Quality Seasonal Adjustments.** As has been the case in five of the last six months, even before adjustment for inflation, the monthly change in October retail sales was not statistically meaningful. Further, concurrent seasonal factor issues, and broader distortions seen otherwise in current seasonal factors, as discussed in the [Hyperinflation Special Report \(2011\)](#), continued. The stability of the seasonal-adjustment process has been disrupted severely by the unprecedented depth and length of the current economic downturn in the post-World War II era (the period of modern economic reporting).

As noted recent *Commentaries*, monthly changes reported in series such as payroll employment and new orders for durable goods—in addition to the retail sales series—remain within the realm of statistical meaninglessness, which leave the markets effectively flying blind as to actual underlying economic activity. In such circumstances, looking at broad underlying fundamentals may be useful. As discussed in [Commentary No. 394](#) and [Commentary No. 398](#), consumer income and credit remain structurally impaired, continuing to signal economic deterioration, not recovery. The broad economy remains in serious trouble, as will be discussed anew in the November 17th *Special Commentary*.

**Nominal (Not-Adjusted-for-Inflation) Retail Sales.** Today's (November 15th) report on October 2011 retail sales—issued by the Census Bureau—indicated a statistically-insignificant, seasonally-adjusted monthly gain of 0.54% (up by 0.55% before prior-period revisions) +/- 0.6% (95% confidence interval). October's increase was on top of a revised 1.14% (previously 1.13%) monthly increase in September.

On a year-to-year basis, October 2011 retail sales were reported up by 7.25%, a somewhat slower pace than seen in the revised year-to-year September 2011 gain of 7.95% (previously 7.94%).

***Real (Inflation-Adjusted) Retail Sales.*** Details on real retail sales for October will be published in tomorrow's November 16th *Commentary*, along with details on the October 2011 CPI-U release. While October CPI-U inflation likely will flat-to-positive (see *Week Ahead*), the monthly gain should not top the 0.5% nominal growth reported in monthly sales. As a result, real retail sales for October most likely will show a month-to-month gain, although any gain still will not be statistically meaningful.

***Core Retail Sales.*** Assuming that 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 preference for ignoring food and energy prices when “core” inflation is lower than full inflation—are estimated using two approaches:

*Version I:* October 2011 versus September 2011 seasonally-adjusted retail sales—net of total grocery store and gasoline station revenues—was up by 0.54%, versus an official gain of 0.54%.

*Version II:* October 2011 versus September 2011 seasonally-adjusted retail sales—net of the monthly change in revenues for grocery stores and gas stations—was up by 0.45%, versus an official gain of 0.54%.

## **PRODUCER PRICE INDEX—PPI (October 2011)**

**Monthly Wholesale Inflation Fell by 0.3% in October, Up 5.9% Year-to-Year.** As reported today, November 15th, by the Bureau of Labor Statistics (BLS), the regularly-volatile, seasonally-adjusted finished-goods producer price index (PPI) for October declined by 0.3% (also down by 0.3% unadjusted) month-to-month, following a month-to-month seasonally-adjusted gain of 0.8% (up by 0.5% unadjusted) in September. October’s monthly inflation drop primarily reflected a short-lived dip in monthly oil and gasoline prices.

Unadjusted and year-to-year, October 2011's PPI inflation eased to 5.9% from 6.9% in September. The relatively high level of annual PPI inflation generally has reflected ongoing impact of the Fed’s dollar-debasement policies, not surging economic demand. Annual changes now are going against the year-ago period when Mr. Bernanke was jawboning QE2 and meeting with some early success in debasing the U.S. Dollar.

October finished goods inflation increasingly reflected ongoing inflation pressures from the spreading impact of higher oil prices outside the energy sector. The “core” finished goods inflation—net of food and energy inflation—rose to 2.8% year-to-year (unadjusted) in October from 2.5% in September.

Separately, on a monthly basis, seasonally-adjusted October 2011 intermediate goods prices fell by 1.1%, versus a gain of 0.6% in September, with October crude goods prices down by 2.5%, following a 2.8% increase in September. Year-to-year inflation in unadjusted October intermediate goods was 8.3%, versus 10.5% in September, with October’s annual inflation in crude goods at 12.6%, versus September’s 20.9% pace.

**Week Ahead.** Although still not widely recognized, there is both an intensifying double-dip recession and an escalating inflation problem. Until such time as financial-market expectations catch up with underlying reality, reporting generally will continue to show higher-than-expected inflation and weaker-than-expected economic results in the month and months ahead. Increasingly, previously unreported economic weakness should show up in prior-period revisions.

***Consumer Price Index—CPI (October 2011).*** The October CPI is scheduled for release on Wednesday, November 16th. Whatever increase is seen in month-to-month October consumer inflation likely will be from areas other than energy. Gasoline prices still get something of a seasonal-adjustment boost in October, but not enough to turn the unadjusted 4.4% decline in October's monthly gasoline prices (per Department of Energy) to the plus side in the CPI. Nonetheless, spreading systemic inflation should add upside risk to this month's reporting versus what generally have been published as flat consensus estimates.

Year-to-year total CPI-U inflation would increase or decrease in October's reporting, dependent on the seasonally-adjusted monthly change, versus the 0.25% gain in the adjusted monthly level reported for October 2010. I use the adjusted change here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for October 2011, the difference in October's headline monthly change (or forecast of same) versus the year-ago monthly change should be added to or subtracted directly from September 2011's reported annual inflation rate of 3.87%. For example, if the monthly October CPI-U were unchanged, the annual inflation rate would ease back to roughly 3.6%.

***Industrial Production (October 2011).*** The release of October industrial production is scheduled for Wednesday, November 16th, and should be flat-to-minus. That would be weaker than published consensus estimates of the headline number at around a 0.4% monthly gain.

***Residential Construction (October 2011).*** The release of October housing starts on Thursday, November 17th, should show a continued downside bottom-bouncing trend. Any upside surprise likely would not be statistically meaningful.

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