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

COMMENTARY NUMBER 456
June CPI and Industrial Production

July 17, 2012

Headline Inflation Should Increase in Next Several Months

June Year-to-Year Inflation: 1.7% (CPI-U), 1.6% (CPI-W), 9.3% (SGS)

Second-Quarter Real Retail Sales Contracted at 1.5% Annualized Rate

Production Growth Slowed Sharply in Second-Quarter

PLEASE NOTE: The next regular Commentary *is scheduled for tomorrow, Wednesday, July 18th, covering June housing starts and a review of current economic reporting.*

Best wishes to all — John Williams

Opening Comments and Executive Summary. Headline CPI inflation was unchanged in June, despite the sharp decline in gasoline prices last month. Seasonal-adjustment factors that had depressed reported gasoline prices in the first part of year, shifted so as to inflate gasoline-price reporting in June. Those same upside pressures will continue in place for the next several months, boosting headline CPI inflation, even when gasoline prices are falling. Yet, for the moment, gasoline prices appear to have bottomed out.

These regular shifts in the seasonal-adjustment process would help to boost reported inflation sharply, if oil prices were to rise anew. For example, in the event of a likely shift in underlying monetary or political fundamentals that could spike oil and energy-related prices quickly, the effects on near-term, seasonally-adjusted CPI inflation reporting could be devastating.

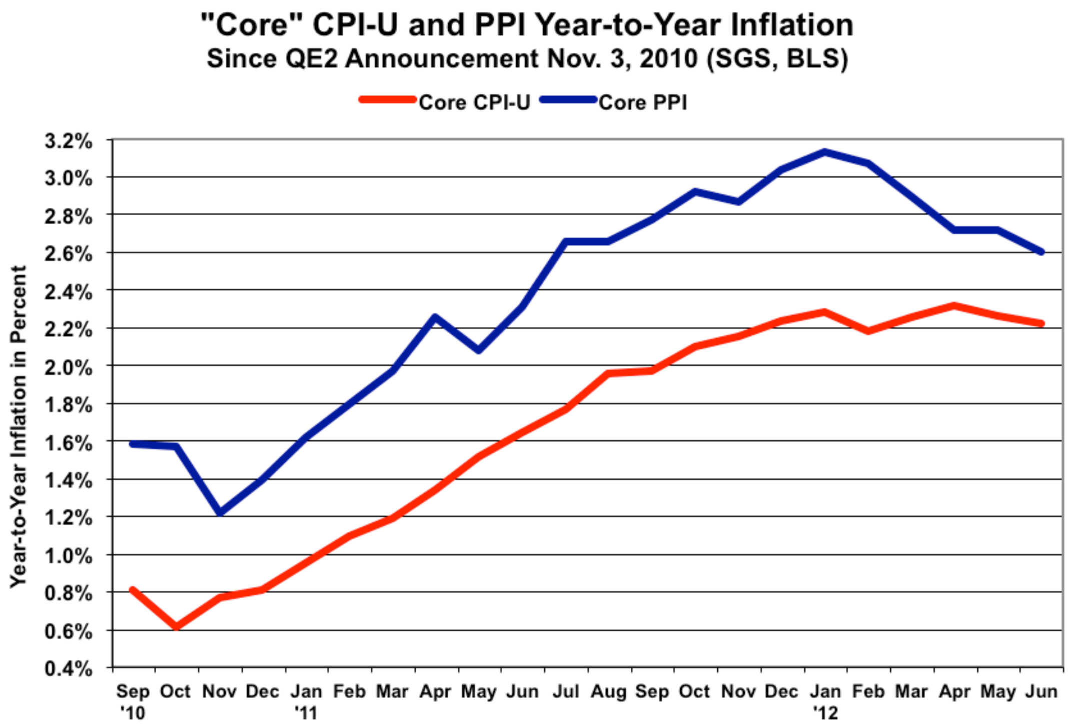
As is discussed here and as will be expanded upon in tomorrow's July 18th *Commentary*, official reporting of U.S. economic activity has indicated rapidly slowing (industrial production) or contracting (retail sales) growth in the second-quarter. The economy appears headed into renewed decline. Despite any protestations to the contrary, Mr. Bernanke needs to provide another round of accommodation to the banking system, yet he needs the political cover of taking action to help economic growth. The economy has weakened enough now to provide that cover. New Fed action likely is just a matter of timing.

The big problem for the system—and a restraint on the Fed—is the likely global response to any new Fed easing. Heavy U.S. dollar selling likely would follow any action, distracting the markets from euro problems for a while. Accompanying the dollar weakness should be spiking oil prices and renewed upside pressure on domestic inflation. The Fed faces devil's choices here, as it frequently has since the near-collapse of the system in 2008. Action to prevent systemic collapse now, as in 2008, would take precedence over all other concerns, including deliberate debasement of the U.S. dollar in the foreign exchange markets and debasement of the dollar in domestic purchasing power, otherwise known as creating inflation.

The battles launched in 2007 and 2008 to salvage the banking system and to rally the economy have not worked. The crises of 2008 still are being fought. The inflationary costs of all the government and Fed actions and interventions still have to be faced, and the Fed's next salvo in the war for systemic-survival is a good bet for detonating the early inflation issues that quickly can build into a massive, severe and uncontainable inflation problem.

June CPI Inflation. The June 2012 CPI-U was unchanged for the month, with year-to-year inflation holding at 1.7%. The headline CPI-W also was unchanged, with year-to-year inflation holding at 1.6%. The SGS-Alternate inflation measures for June showed a 5.0% annual inflation rate (1990-based) and a 9.3% annual inflation rate (1980-based). The June "core" inflation rate (net of food and energy inflation) for the CPI-U was at 2.2%, year-to-year, down from 2.3% in May.

As reflected in the following graph, core inflation remains strong, as the long-range impact of higher oil prices—triggered by QE2—still spreads through the broad economy. Food prices are spiking and gasoline prices are stabilizing. Inflation should rise in the near-term but, again, the big risk to near-term inflation remains monetary action by the Fed that would have the effect of debasing the U.S. dollar and spiking the price of oil and related products such as gasoline. Separately, political upheaval in the Middle East always remains a risk to near-term oil-price stability.



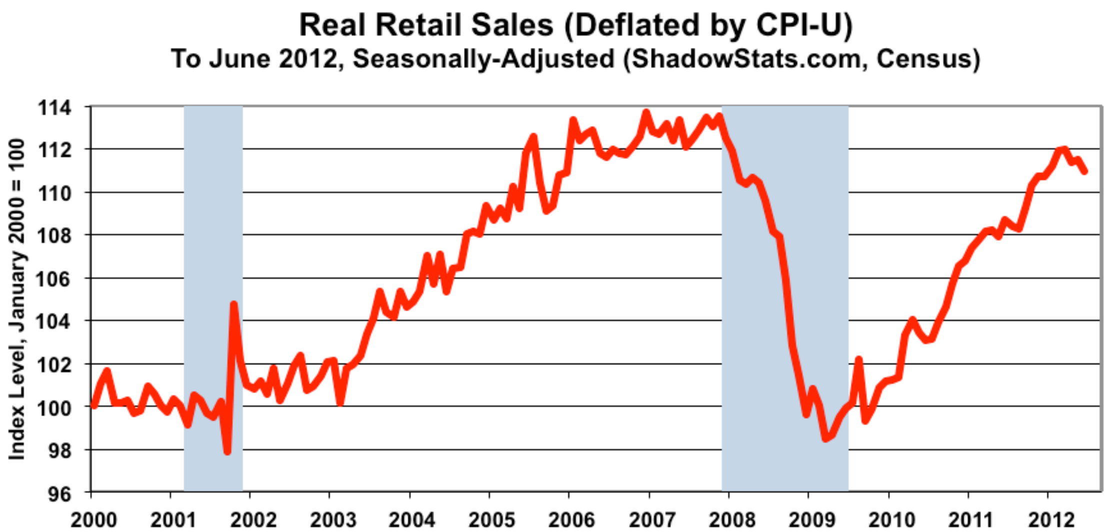
Real Retail Sales in Contraction. Adjusted for CPI-U inflation, real (inflation-adjusted) retail sales fell by 0.5% in June 2012, to the lowest level since December 2011. As shown in the first graph following, sales appear to have peaked and are in decline.

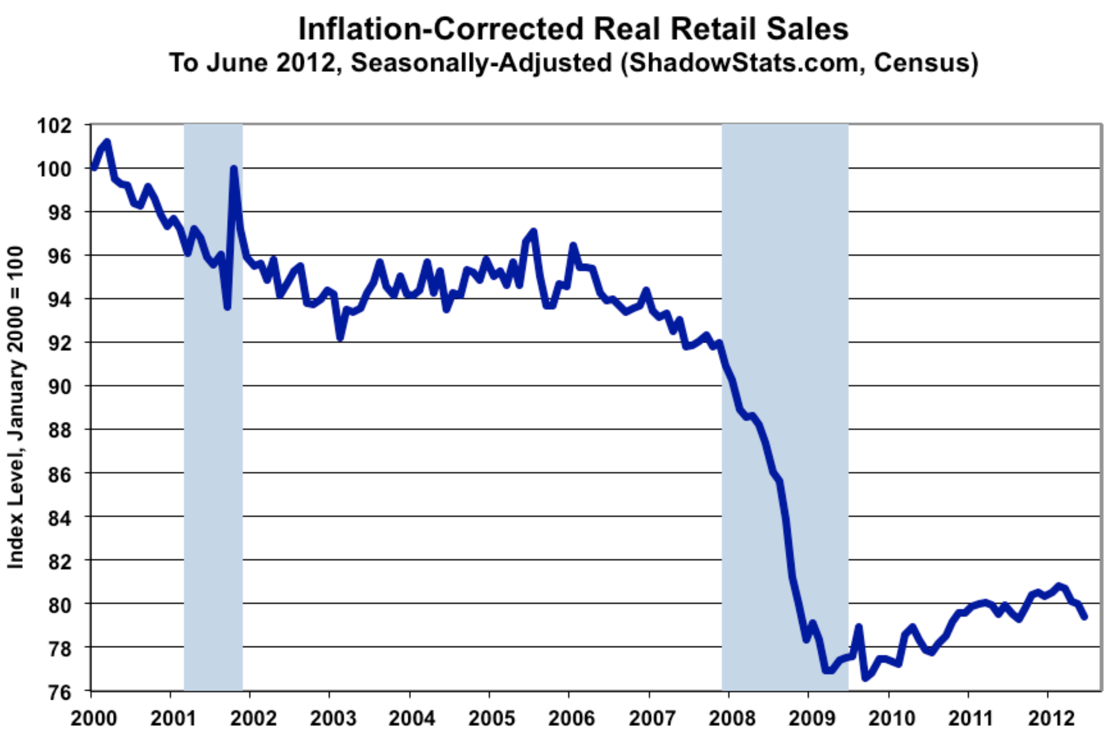
Real retail sales for second-quarter 2012 contracted at an annualized pace of 1.5% versus the first-quarter. That was the first quarterly contraction in real retail sales since second-quarter 2009, at the formal end of the official recession.

On a year-to-year basis, annual growth slowed to 2.1% in June, from 3.3% in May. In normal economic times, real growth falling to that level would be a signal for a pending recession.

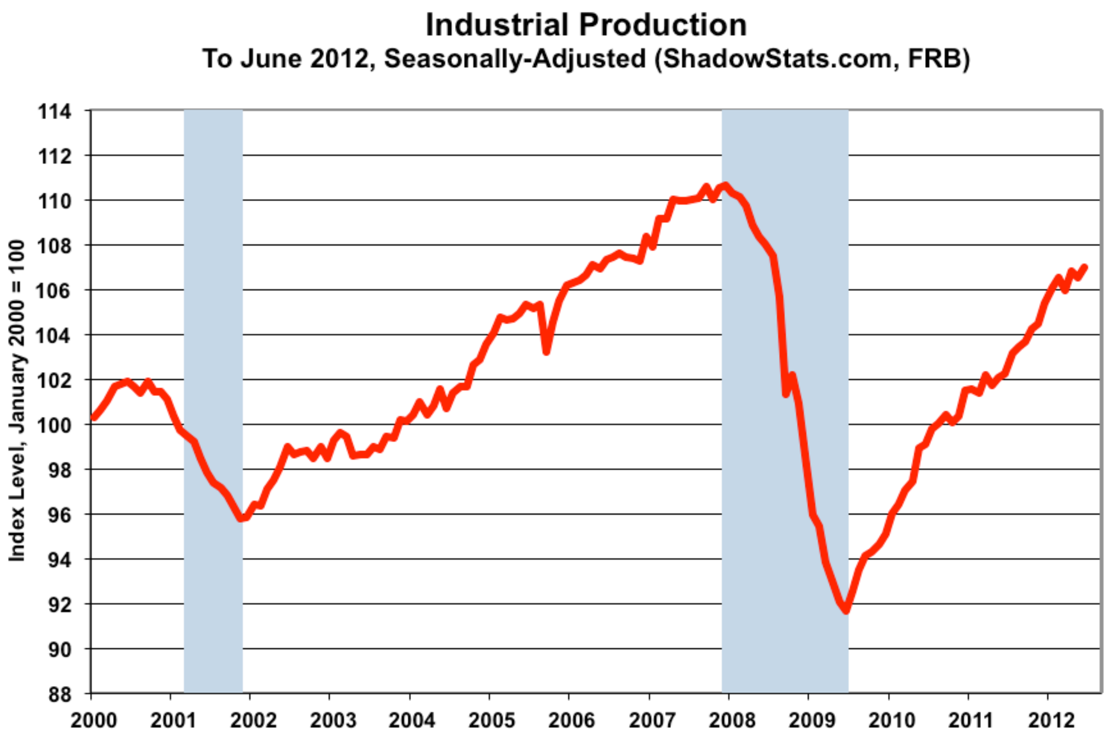
The following charts are indexed to a consistent scale and they update *Graphs 28* and *29* in *Special Commentary No. 445*. The first graph reflects the reported real retail sales, but that series is deflated by the CPI-U, which understates inflation (see the *Public Comment on Inflation*).

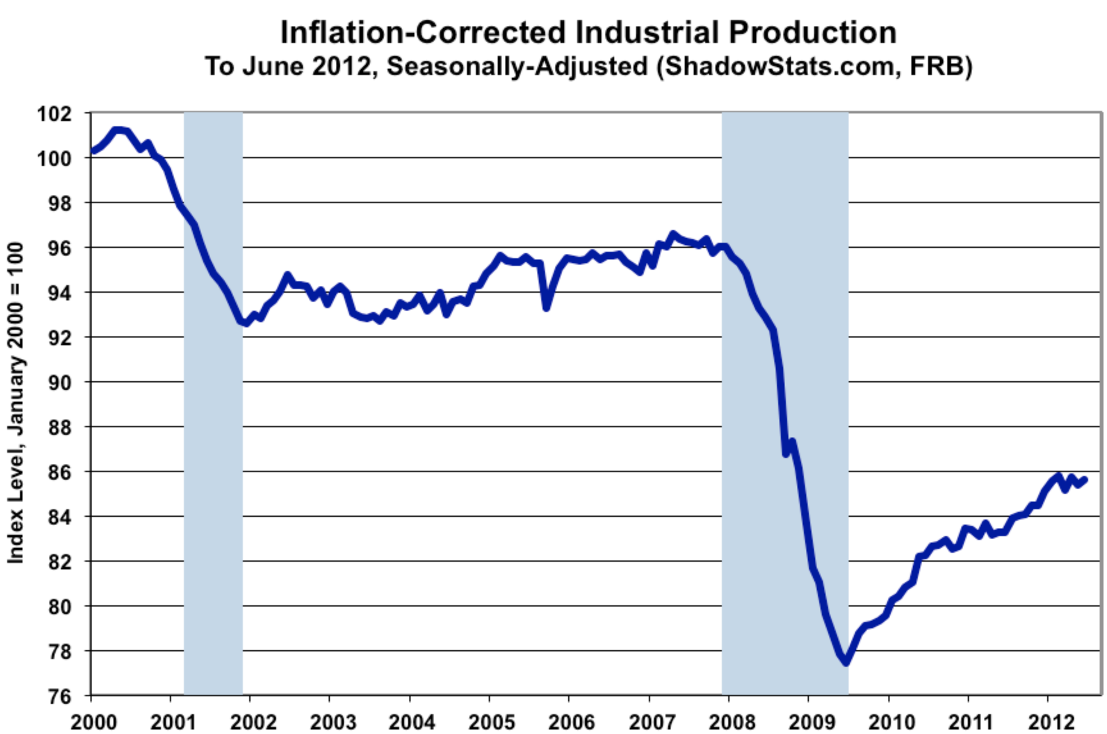
The downturn in sales also is reflected in the second graph of real retail sales, which is "inflation-corrected." The inflation-corrected numbers use the SGS-Alternate Inflation Measure (1990-Base) for deflation instead of the CPI-U. As discussed in *Hyperinflation 2012* and *Special Commentary No. 445*, deflation by too-low an inflation number (such as the CPI-U) results in overstated real growth.





Industrial Production. An unusual pattern of monthly revisions has tended to overstate monthly headline growth, including the headline 0.4% gain in June production that otherwise would have been 0.1%. Annualized quarterly growth in production slowed sharply to 2.2% in the second-quarter, from 5.8% in the first-quarter. Nearly all of the second-quarter growth in manufacturing production came from automobile makers building up excess inventories.


Industrial Production
To June 2012, Seasonally-Adjusted (ShadowStats.com, FRB)
Index Level, January 2000 = 100
114
112
110
108
106
104
102
100
98
96
94
92
90
88
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012


Inflation-Corrected Industrial Production
To June 2012, Seasonally-Adjusted (ShadowStats.com, FRB)
Index Level, January 2000 = 100
102
100
98
96
94
92
90
88
86
84
82
80
78
76
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012

The preceding graphs here update *Graphs 30* and *31* in *Special Report No. 445*. They are consistent in indexing and scale. The first graph reflects published industrial production, except it is indexed to January 2000 = 100, instead of the official 2007 = 100 used in the graphs in the *Reporting Detail* section. The second graph is an inflation-corrected version of the first, with estimated hedonic inflation adjustments backed-out of those components where prices are deflated as part of the industrial production index creation.

The series appears to have topped-out in the inflation-corrected version.

Hyperinflation Watch. *Note: Except for the regular gold graphs, the text in this section is unchanged from the prior Commentary. The general outlook remains the same, with the broad outlook discussed in detail in* Special Report No. 445 *(June 12th), which updated the hyperinflation outlook and the outlook for U.S. economic, U.S. dollar, and systemic-solvency conditions. That* Special Report *supplemented* Hyperinflation 2012 *(January 25th), which remains the primary* Commentary *detailing the hyperinflation story.*

Official GDP reporting shows a plunge in economic activity from fourth-quarter 2007 to second-quarter 2009, with an ensuing upturn in activity that led to a full recovery as of third-quarter 2011. In contrast, I contend the economy began turning down in 2006, plunging in 2008 into 2009 and subsequently stagnating—bottom-bouncing—at a low level of activity ever since. There has been no recovery, and the economic downturn is intensifying anew.

The official recovery simply is a statistical illusion created by the government's use of understated inflation in deflating the GDP. Use of understated inflation in such a manner results in overstated economic growth.

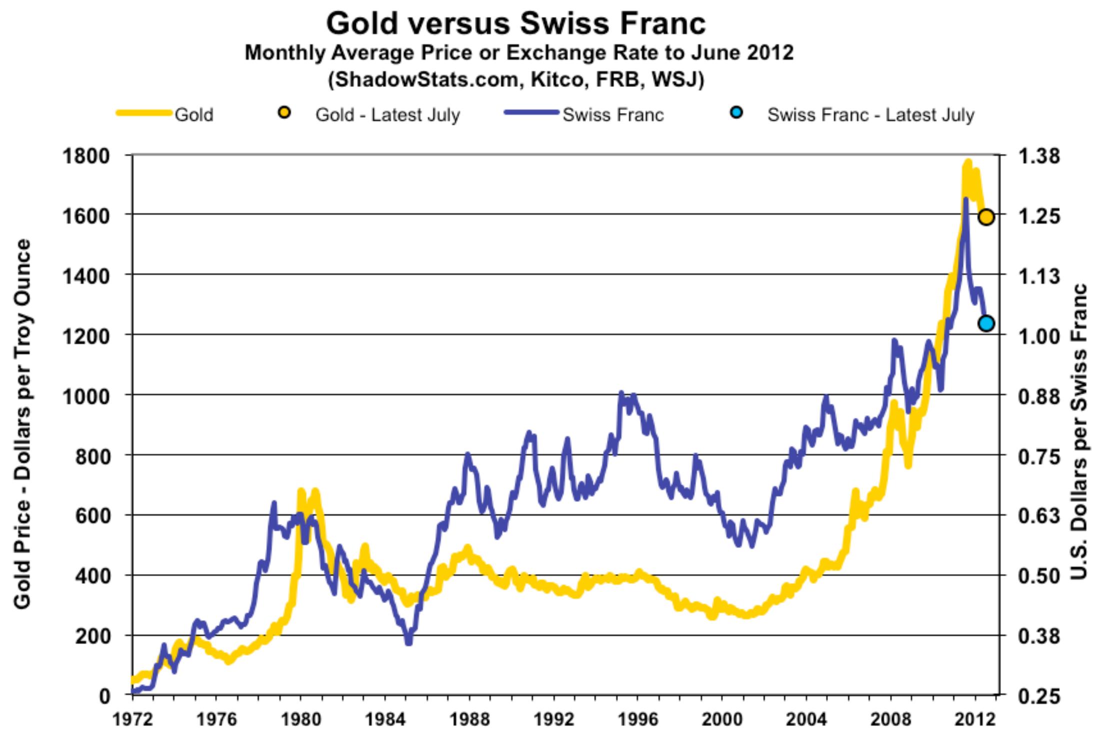
The long-term fiscal solvency issues of the United States—where GAAP-based accounting shows annual deficits running in the $5 trillion range—are not being addressed, and the politicians currently running the government lack the political will to address those issues. That circumstance initially suggested a hyperinflation crisis by the end of this decade, but the systemic-solvency crisis of 2008 accelerated the process, indicating a hyperinflation problem by no later than the end of 2014.

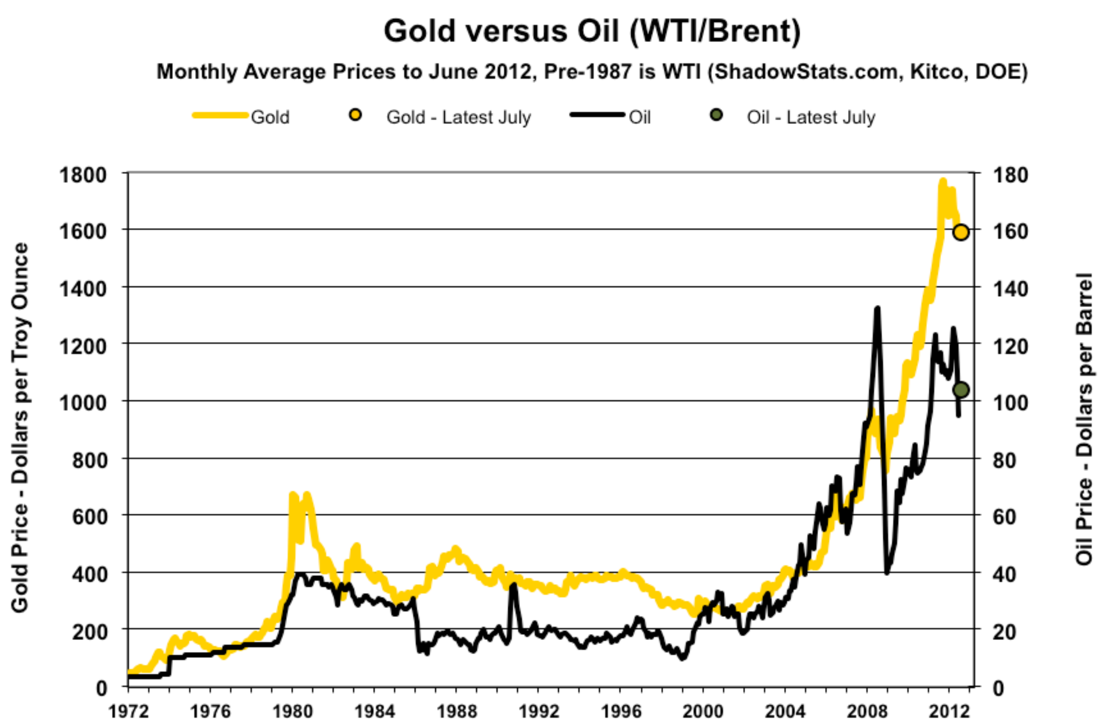
Neither economic nor systemic-solvency issues have been resolved by U.S. government or Federal Reserve actions. With the economy weak enough to provide cover for further Fed accommodation to the still-struggling banking system, the next easing by the Fed likely will trigger a massive dollar selling crisis and begin the process of a rapid upturn in domestic consumer inflation.

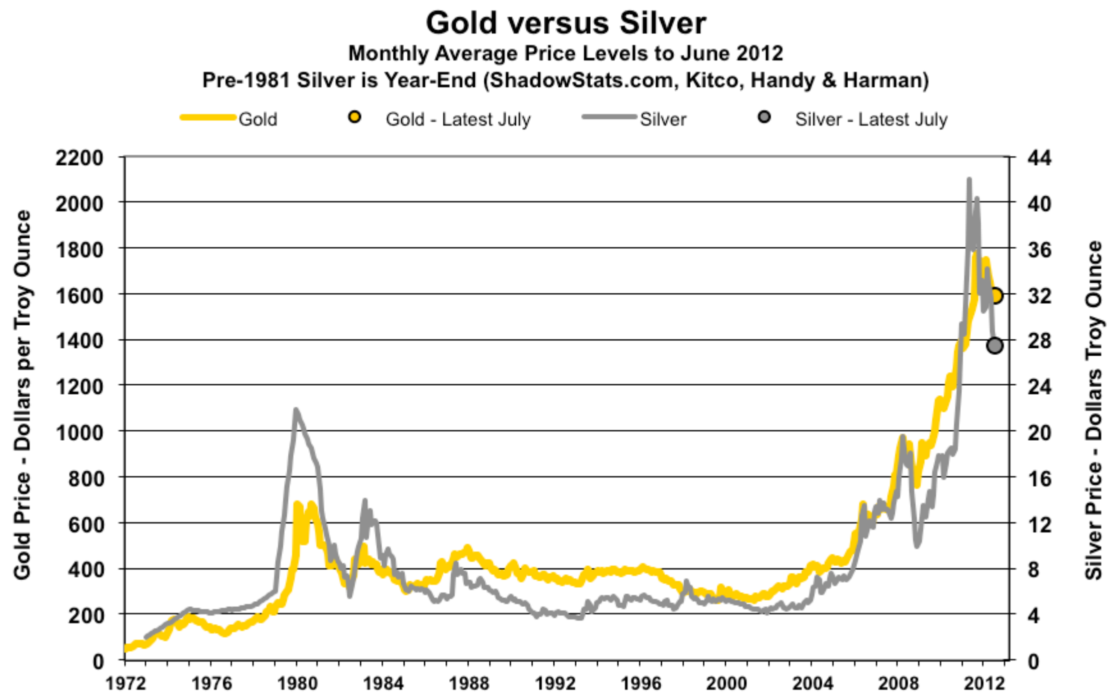
A general review of near-term economic activity will be included in the *Commentary* of July 18th.

Gold Graphs. Following are the regular graphs of gold versus the Swiss franc, oil and silver that are included in the *Commentaries* covering consumer inflation.

Dollar strength versus the euro remains the primary factor behind the weaker prices or values seen in each graph. As the global markets turn anew against the U.S. dollar, those patterns should reverse.


Gold versus Swiss Franc
Monthly Average Price or Exchange Rate to June 2012
(ShadowStats.com, Kitco, FRB, WSJ)
Gold
Gold - Latest July
Swiss Franc
Swiss Franc - Latest July
Gold Price - Dollars per Troy Ounce
U.S. Dollars per Swiss Franc
1800
1600
1400
1200
1000
800
600
400
200
0
1.38
1.25
1.13
1.00
0.88
0.75
0.63
0.50
0.38
0.25
1972
1976
1980
1984
1988
1992
1996
2000
2004
2008
2012


Gold versus Oil (WTI/Brent)
Monthly Average Prices to June 2012, Pre-1987 is WTI (ShadowStats.com, Kitco, DOE)
Gold
Gold - Latest July
Oil
Oil - Latest July
Gold Price - Dollars per Troy Ounce
Oil Price - Dollars per Barrel
1800
1600
1400
1200
1000
800
600
400
200
0
180
160
140
120
100
80
60
40
20
0
1972
1976
1980
1984
1988
1992
1996
2000
2004
2008
2012



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REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (June 2012)

Unchanged June CPI Inflation Reflected Seasonal Factors Mitigating the Impact of Falling Gasoline Prices. The annual switchover in gasoline inflation seasonal factors has started, with the June CPI coming in unchanged, instead of in monthly contraction, thanks to seasonal adjustments mitigating the impact of declining gasoline prices. Where the seasonals reduce reported gasoline inflation in the first half of the year, they increase them in the second-half. As gasoline prices bottom out, seasonally-adjusted monthly inflation should pick-up as a direct result. The process would help to spike prices sharply, if likely underlying monetary and political developments evolve in such manner as to renew upside pressure on oil and energy-related prices.

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Notes on Different Measures of the Consumer Price Index

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

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

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

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

*The **SGS 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.*

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CPI-U. The BLS reported today (July 17th) that the headline, seasonally-adjusted CPI-U for June 2012 rose by 0.04% (unchanged at the first decimal point) and was down by 0.34%, unadjusted, for the month. That followed a May monthly decline of 0.28% (down by 0.12% unadjusted).

The BLS estimated a not-seasonally-adjusted 6.1% decline in June gasoline prices, versus a 5.1% monthly decline indicated in the more-comprehensive surveying of the Department of Energy. Seasonal adjustments in June flipped, however, boosting adjusted June gasoline prices and narrowing the unadjusted 6.1% decline to a 2.0% decline. The seasonal factors should tend to inflate adjusted gasoline prices by even more in the next several months.

After 17 of the last 19 months showed rising annual "core" CPI-U inflation (net of food and energy inflation), the June 2012 year-to-year core rate of 2.22% continued to back-off from April's cycle-high of 2.31%, where May had slowed minimally to 2.26%. The June core rate still was well above the core inflation of 0.61%, in November 2010, when Mr. Bernanke introduced QE2 in a successful bid to debase the U.S. dollar, with the effect of spiking oil prices. The core annual inflation numbers for both the CPI-U and PPI reflect the ongoing impact of higher energy prices in the broad economy (see the graph and comments in the *Opening Comments and Executive Summary)*.

The seasonally-adjusted, annualized quarter-to-quarter inflation for the CPI-U was 0.75% in second-quarter 2012, versus 2.48% in the first-quarter.

June 2012 unadjusted year-to-year CPI-U inflation inched lower to 1.66%, from 1.70% in May.

Year-to-year total CPI-U inflation would increase or decrease in next month's July 2012 reporting, dependent on the seasonally-adjusted monthly change, versus the 0.30% gain in the adjusted monthly level reported for July 2011. I use the adjusted change here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for July 2012, the difference in July's headline monthly change (or forecast of same) versus the year-ago monthly change should be added to or subtracted directly from the June 2012 annual inflation rate of 1.66%.

CPI-W. The headline seasonally-adjusted CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, declined by 0.01% (unchanged at the first decimal point) and was down by 0.25%, unadjusted, for the month. That was against a monthly decline in May of 0.40% (down by 0.18% unadjusted).

The seasonally-adjusted, annualized quarter-to-quarter inflation for the CPI-W was 0.33% in second-quarter 2012, versus 2.66% in the first-quarter.

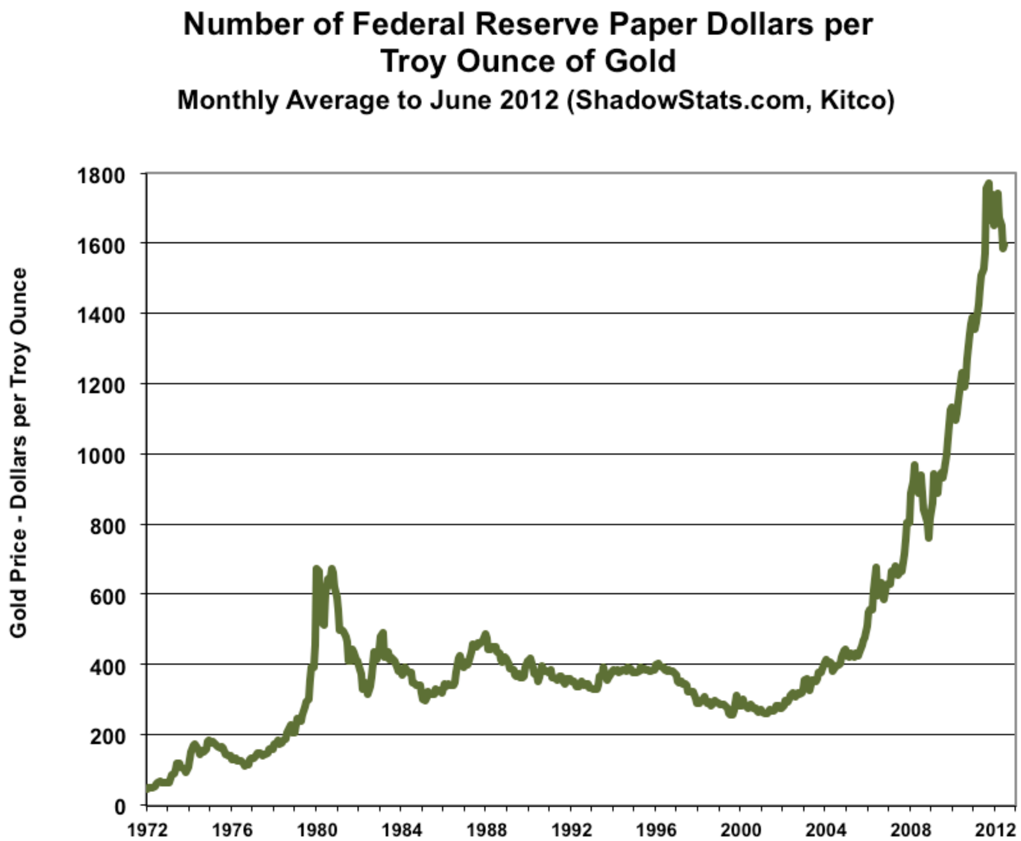
Unadjusted, June 2012 year-to-year CPI-W inflation was 1.58%, versus 1.64% in May.

C-CPI-U. Year-to-year inflation for the June 2012 C-CPI-U was 1.57%, versus 1.61% in May.

The chain-weighted CPI-U is the fully substitution-based series that gets touted as a CPI replacement by inflation apologists and by those who oppose use of the existing CPI-U and CPI-W, including a number of politicians looking to cut deficit spending by using the C-CPI-U to reduce Social Security annual cost of living (COLA) adjustments artificially. The series is reported only on an unadjusted basis and is revised annually for the prior two years, unlike the unadjusted CPI-U, which never is revised, except for outright calculation errors.

Alternate Consumer Inflation Measures. Adjusted to pre-Clinton (1990) methodology, annual CPI inflation was roughly 5.0% in June 2012, versus 5.1% in May. The SGS-Alternate Consumer Inflation Measure, which reverses gimmicked changes to official CPI reporting methodologies back to 1980, was about 9.3% (9.26% for those using the extra digit) in June, versus 9.3% in May 2012

The SGS-Alternate Consumer Inflation Measure adjusts on an additive basis for the cumulative impact on the annual inflation rate of various methodological changes made by the BLS (the series is 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 most of what consumers view as out-of-pocket expenditures. Roughly five percentage points of the additive SGS adjustment reflect the BLS's formal estimate of the annual impact of methodological changes; roughly two percentage points reflect changes by the BLS, where SGS has estimated the impact not otherwise published by the BLS. (See the *Public Commentary on Inflation Measurement* for further detail.)



Gold and Silver Highs Adjusted for CPI-U/SGS Inflation. 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) of January 21, 1980 would be $2,507 per troy ounce, based on June 2012 CPI-U-adjusted dollars, $9,336 per troy ounce based on SGS-Alternate-CPI-adjusted dollars (all series not seasonally adjusted).

In like manner, the all-time high 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 June 2012 CPI-U inflation, the 1980 silver price peak would be $146 per troy ounce and would be $543 per troy ounce in terms of SGS-Alternate-CPI-adjusted dollars (again, all series not seasonally adjusted).

As shown in Table 1 on page 50 of *Hyperinflation 2012*, over the decades, the increases in gold and silver prices have compensated for more than the loss of the purchasing power of the U.S. dollar as reflected by CPI inflation, while they effectively have compensated fully for the loss of purchasing power of the dollar based on the SGS-Alternate Consumer Price Measure (1980 Methodologies Base).

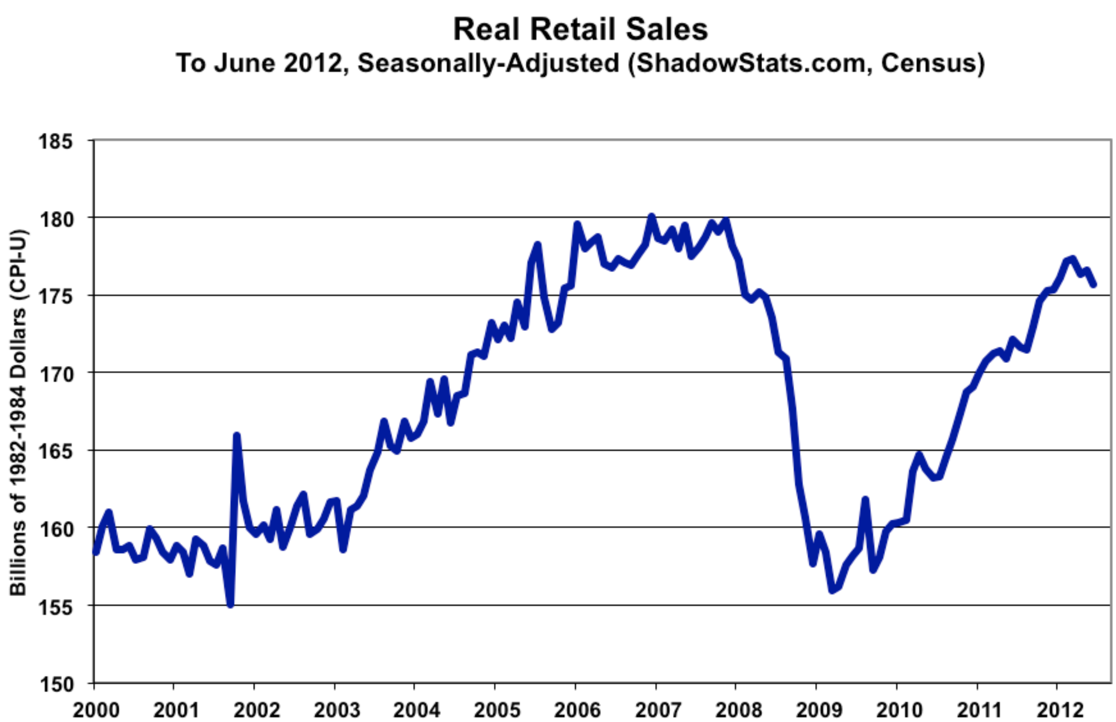
Real (Inflation-Adjusted) Retail Sales. Adjusted for CPI-U inflation, retail sales fell by 0.5% in June 2012, to the lowest level since December 2011. Real retail sales in second-quarter 2012 contracted at an annualized pace of 1.5% from the first-quarter, the first quarterly contraction since the formal end to the recession in June 2009. On a year-to-year basis, annual growth slowed to 2.1% in June, from 3.3% in May. In normal economic times, real growth falling to that level would be a signal for a pending recession.

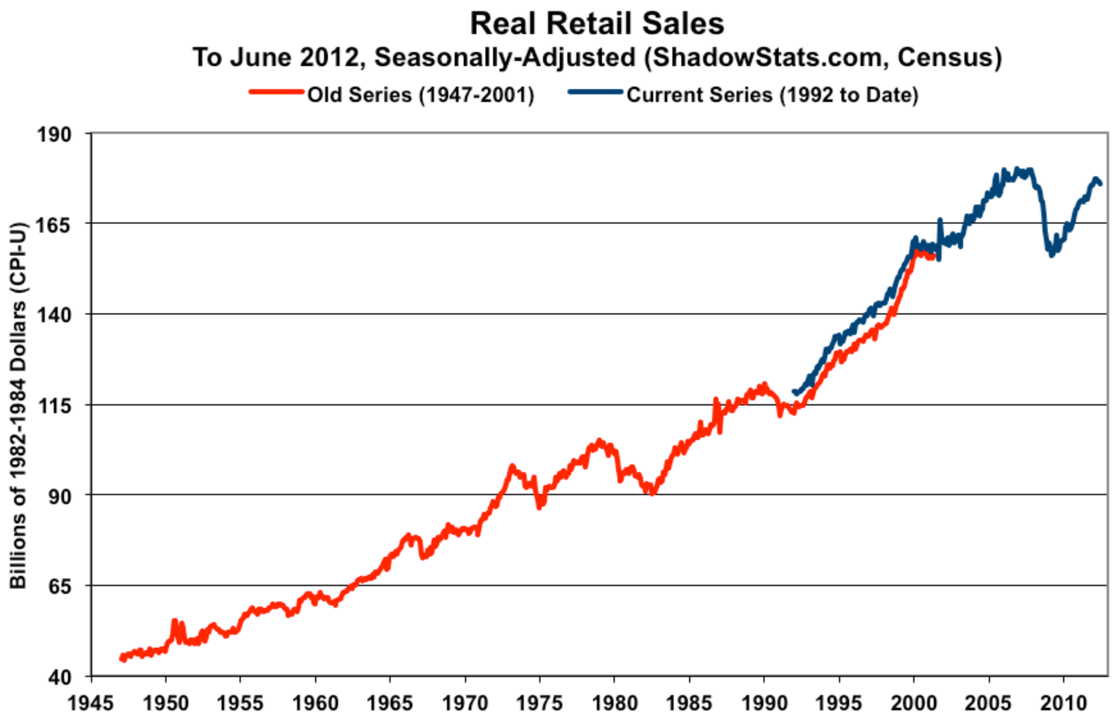
Based on June CPI-U reporting, inflation- and seasonally-adjusted June 2012 retail sales fell by 0.52% for the month, where, before inflation-adjustment, the current number was down by 0.48% (see *Commentary No. 455* for detail of the retail sales report). May real retail sales were revised to a 0.12% (previously a 0.11%) monthly gain, versus an unrevised nominal 0.17% contraction.

The seasonally-adjusted, annualized quarter-to-quarter change in real retail sales for second-quarter 2012 was a contraction of 1.52%, versus a gain of 4.14% in the first-quarter.

June real retail sales rose at a year-to-year pace of 2.06%, versus a revised 3.35% (previously 3.50%) in May.

The "recovery" in real retail sales clearly is faltering, as reflected in the following monthly graphs. As with the May release, June revisions have emphasized a topping-out pattern for early-2012.





The first graph shows real retail sales activity (deflated by the CPI-U) since 2000. The second graph shows full post-World War II detail.

The recent pattern also turns increasingly negative in the updated "inflation-corrected" real retail sales graph shown in the *Opening Comments and Executive Summary section.* The inflation-corrected numbers use the SGS-Alternate Inflation Measure (1990-Base) for deflation instead of the CPI-U. As discussed in *Hyperinflation 2012* and *Special Commentary No. 445*, deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating economic growth.

There has been no change in the underlying fundamentals. There is nothing that would support a sustainable turnaround in retail sales, personal consumption or in general economic activity. There is no recovery, just general bottom-bouncing.

As official consumer inflation picks up again, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze, these data should turn down meaningfully in what eventually will become a formal double-dip recession.

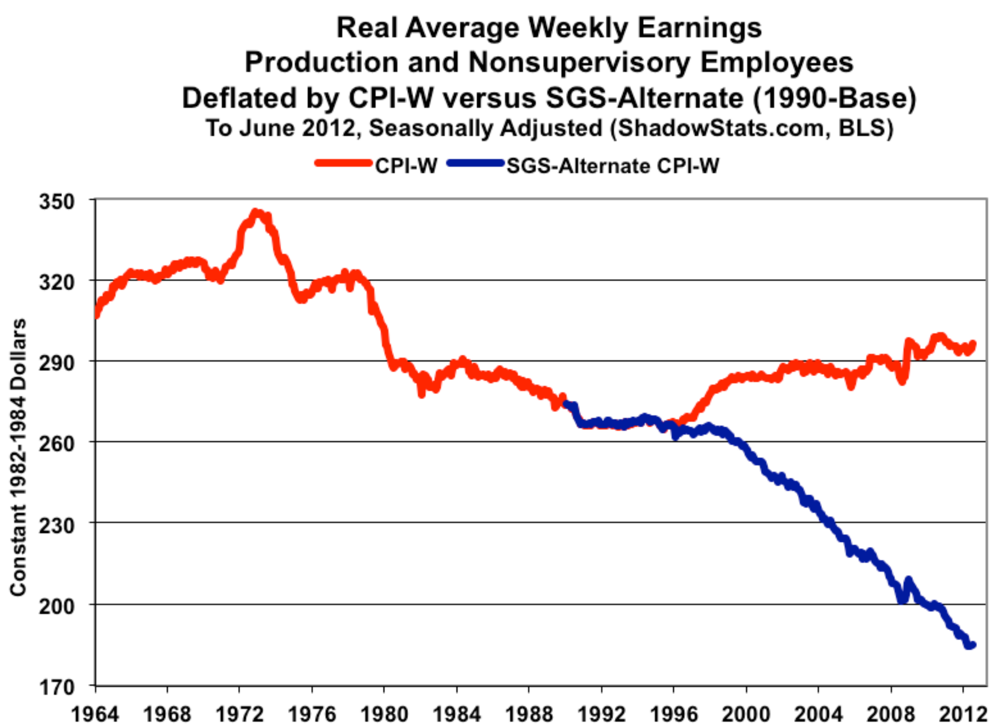
Real Earnings. Coincident with today's (July 17th) CPI release, the BLS published real (inflation-adjusted) average weekly earnings for June 2012.

For all employees on private nonfarm payrolls, real average weekly earnings (deflated by the CPI-U) rose by 0.5% (up by 0.5% before inflation-adjustment) in June, following May's revised 0.2% real gain (previously 0.1%), which was down by 0.1% before inflation adjustment. Year-to-year, real earnings were up by 0.6% in June, versus a revised 0.1% gain (previously unchanged) in May.

For June 2012, the production and nonsupervisory employees series showed real average weekly earnings (deflated by the CPI-W) were up by 0.6% (up 0.6% before inflation-adjustment), versus a revised 0.3% (previously 0.4%) gain in May (down by 0.2% before inflation-adjustment). Year-to-year, real earnings gained 0.2% in June, versus a revised 0.3% decline (previously unchanged) in May.

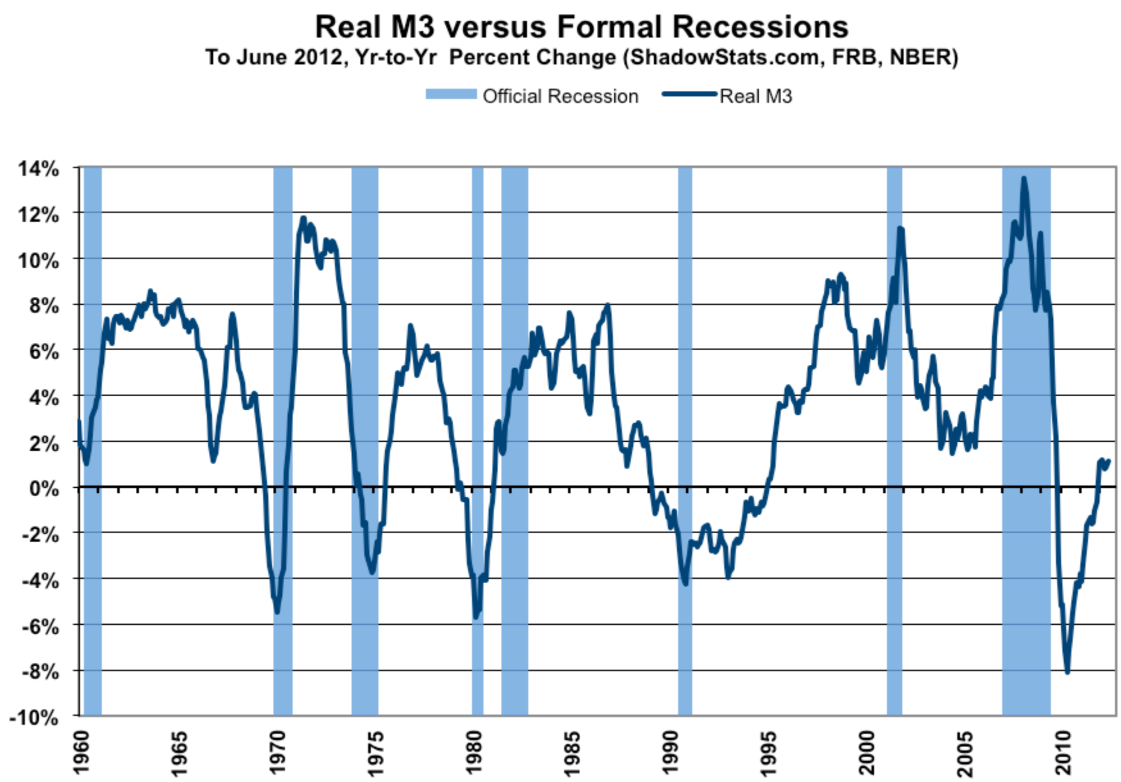
Flat-to-minus seasonally-adjusted CPI-U and CPI-W monthly numbers have helped the recent reporting here.

The production and nonsupervisory employees series is the only one with meaningful historical data, and is shown in the following graph. The chart shows both CPI-W deflation and deflation using the SGS-Alternate Inflation Measure (1990-Base), updating *Graph 13* in *Special Commentary No. 445*.



Real Money Supply M3. The signal for a double-dip or ongoing recession, based on annual contraction in the real (inflation-adjusted) broad money supply (M3), discussed in the in *Hyperinflation 2012*, remains in place and continues, despite real annual M3 growth having turned to the upside. As shown in the following graph—based on the June 2012 CPI-U report and the latest June SGS-Ongoing M3 Estimate—the annual growth in real M3 for June 2012 was 1.2%, versus a revised 0.9% (previously 0.7%) in May.

The signal for a downturn or an intensified downturn is generated when annual growth in real M3 first turns negative in a given cycle; the signal is not dependent on the depth of the downturn or its duration. Breaking into positive territory does not generate a meaningful signal one way or the other for the broad economy. The current downturn signal was generated in December 2009. The broad economy tends to follow in downturn or renewed deterioration roughly six-to-nine months after the signal. Weaknesses in a number of series continued in 2011, with significant new softness in recent reporting. A renewed downturn in official data is becoming obvious to many observers, eventually leading to recognition of a double-dip recession.



INDEX OF INDUSTRIAL PRODUCTION (June 2012)

Unstable Revisions Keep Monthly Production Changes Gyrating. The only consistency in recent industrial production reporting is in fairly large negative revisions that have the effect of showing lower historical growth, while boosting purported headline growth. For June 2012, for example, the headline 0.43% monthly gain would have been just 0.15%, but for downward revisions to prior periods.

In May the headline 0.09% decline would have been a 0.13% decline, but for the prior revisions. Based on June reporting, May's monthly decline now has deepened to 0.23%. In April the headline 1.09% gain would have been a 0.87% increase, but for the prior-period revisions. Based on June reporting, April's monthly gain now has softened to 0.79%. The Federal Reserve seems to be having difficulties with its non-banking surveys as well as its banking-system data, including consumer credit outstanding and, more broadly, the flow-of-funds accounts.

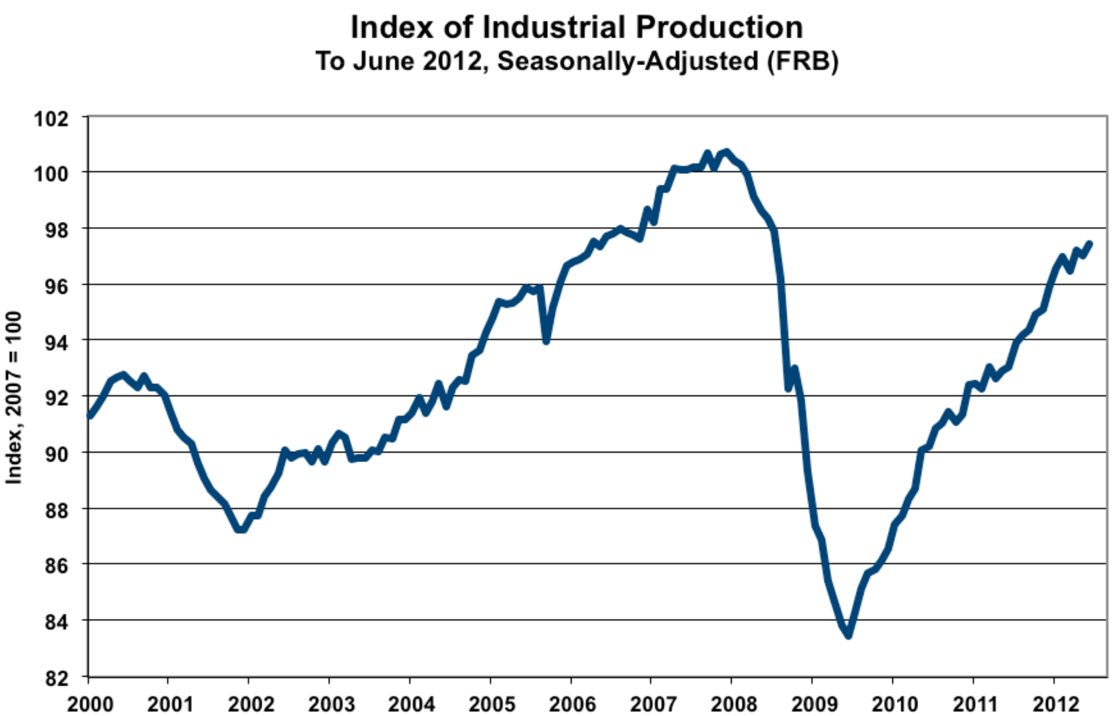
June 2012 Reporting. This morning's (July 17th) release by the Federal Reserve Board of seasonally-adjusted June 2012 industrial production showed a headline gain of 0.43% (up by 0.15% before prior-period revisions) in monthly activity. May production showed a revised 0.23% (previously 0.09%) monthly decline.

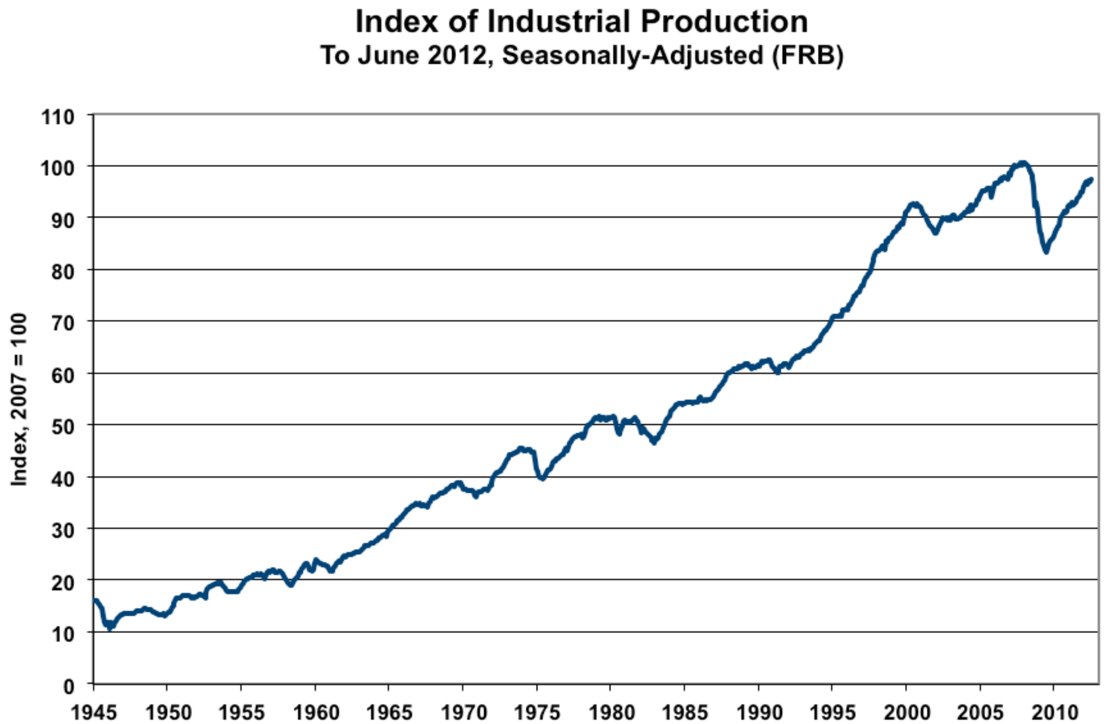
The seasonally-adjusted, annualized quarter-to-quarter change in second-quarter 2012 industrial production (manufacturing, mining and utilities) slowed to 2.24%, from 5.83% in the first-quarter.

As noted by the Fed, growth in second-quarter manufacturing was dominated by the automotive industry, which keeps building inventories despite slowing demand.

Per the Fed's press release of July 17th: "In the second quarter of 2012, manufacturing output rose at an annual rate of 1.4 percent, a marked deceleration from its strong gain of 9.8 percent in the first quarter. The largest contribution to the increase in the second quarter came from motor vehicles and parts, which climbed 18.2 percent; excluding motor vehicles and parts, manufacturing output edged up 0.1 percent."

Year-to-year growth for June 2012 aggregate production was 4.38%, slightly below the revised annual pace of 4.68% (previously 4.67%) seen in May. That still was well off the series' recent relative peak annual growth of 8.13% in June 2010. The year-to-year contraction of 15.15% seen in June 2009, at the end of second-quarter 2009, was the steepest annual decline in production growth since the shutdown of war-time production following World War II.





The "recovery" in industrial production is reflected in the preceding graphs. Both graphs show the monthly level of the production index. The first of these shows recent historical detail for the period beginning in 2000, the second shows the same data in historical context since World War II.

Corrected for the understatement of inflation used in deflating portions of the industrial production index, the series has shown more of a bottom-bouncing pattern since 2009, and is appears to be topping out in recent reporting. The inflation-corrected production series is graphed in the *Opening Comments and Executive Summary* section.

Week Ahead. *Market recognition of an intensifying double-dip recession is taking a stronger hold, at the moment, while recognition of a mounting inflation threat remains sparse. The political system would like to see the issues disappear until after the election; the media does its best to avoid publicizing unhappy economic news or to put a happy spin on the numbers; and the financial markets will do their best to avoid recognition of the problems for as long as possible, problems that have horrendous implications for the markets and for systemic stability.*

Until such time as financial-market expectations move to catch up fully with underlying reality, or underlying reality catches up with the markets, reporting generally will continue to show higher-than-expected inflation and weaker-than-expected economic results in the months and year ahead. Increasingly, previously unreported economic weakness should show up in prior-period revisions.

Residential Construction (June 2012). June housing starts detail is due for release on Wednesday, July 18th, by the Census Bureau. Following a 75% plunge in activity from 2006 through 2008, the ensuing four-year pattern of housing starts stagnation—at an historically low level of activity—likely did not change in June. As has become the standard circumstance, any reported monthly gain likely would not be statistically significant.

Existing Home Sales (June 2012). The June existing home sales release is scheduled for Thursday, July 19th, from the National Association of Realtors. As usually is the case for both this and the new home sales series, entrenched patterns of bottom-bouncing likely will continue, and the new monthly results are not likely to be statistically significant. The reporting of existing home sales will be covered in the July 26th *Commentary*, along with the new home sales detail.

