

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

**COMMENTARY NUMBER 494**  
**December Retail Sales, PPI**

**January 15, 2013**

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**Merrily We Roll Along, Towards Hyperinflation**

**U.S. Sovereign-Solvency Concerns Could Resurface Quickly in Global Markets**

**December Retail Sales Gain Was Statistically Insignificant;  
Activity Was Blurred by Storm Impact and Unstable Seasonal Adjustments**

**Despite Stable Oil, December PPI Was Hit by Lower Food and Gasoline Prices**

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*PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Wednesday, January 16th, covering the December CPI and related inflation-adjusted retail sales and earnings, as well as industrial production, followed by a Commentary on January 17th covering December housing starts.*

*Also on January 17th, the U.S. Treasury plans to release (at a time yet to be determined) its 2012 GAAP-based financial statements on the United States government. A Special Commentary analyzing that release will follow as soon as practicable thereafter.*

*Best wishes to all — John Williams*

**Opening Comments and Executive Summary.** The U.S. Treasury plans a June 17th release for the *2012 Financial Report of the United States Government*. Based on consistent GAAP-based accounting and the inclusion of the annual changes in the net present values of unfunded liabilities, the government's

financial conditions likely deteriorated markedly in the fiscal year ended September 30, 2012. Aside from the assessing the latest financial numbers in some detail, the ensuing *Special Commentary*, will look at the rapidly deteriorating prospects for the evolving fiscal-policy and debt-ceiling negotiations. That negotiation process likely will do little to resolve the longer-range U.S. sovereign-solvency issues. Instead, lack of significant action on the government's finances, or a collapse in negotiations, most likely would accelerate the movement towards hyperinflation, as concerns in the global markets would rise sharply as to the ongoing viability of the U.S. dollar.

On an unusually disconcerting side, the Obama administration briefly dipped its toe into the hyperinflation trough of endless money creation, but then pulled back. A trial balloon on minting a trillion-dollar platinum-bullion coin—so as to bypass the debt ceiling—was floated by the *New York Times*. A gimmick allowed by a loophole in existing laws would permit the depositing of such a coin with the Federal Reserve. The U.S. Treasury then could spend funds from the seigniorage (the excess of face value over the cost of the coin, effectively \$1 trillion) on the coin, without having to issue new debt.

There were hints of a developing euphoria in the Administration, and among some fans of big-spending in Congress, over simply being able to print or mint whatever money was needed, without debt consequence. Yet, no one seemed to be picking up on an unfortunate consequence of unlimited currency and money-supply creation: hyperinflation. An exception possibly was the Federal Reserve.

Over the weekend (January 12th)—before global markets could tank the dollar—the Fed shot down the trial balloon, refusing to participate in the new money-creation scheme. In tandem, the U.S. Treasury backed off the approach. Apparently the Fed views uncontrolled money creation as its prerogative, not the Administration's.

***Broad Economic Outlook Remains Unchanged.*** The *Commentary* due for release on January 16th will include a review of the latest economic activity, based on December and fourth-quarter reporting of real retail sales, industrial production and housing starts, as well as the latest inflation reporting. The general outlook should be unchanged.

As discussed in [Commentary No. 493](#) and in [Special Commentary \(No. 485\)](#), severe, structural consumer liquidity issues continue, with lack of real growth in income and credit impairing the fundamental ability of the consumer to support sustained growth in personal consumption and retail sales.

December 2012 Retail Sales. The headline 0.51% gain in December retail sales versus November was not statistically significant. In turn, November showed a revised monthly gain of 0.38%. Both those numbers reflected some ongoing impact from Hurricane Sandy, with December's activity likely boosted by sales of replacement automobiles. Annual aggregate sales growth rose to 4.72% in December, versus a revised 4.08% in November. Retail sales details net of CPI-U inflation adjustment will be published in tomorrow's January 16th *Commentary* covering December CPI.

Otherwise, highly variable and unstable seasonal factors clouded activity in the October-to-December 2012 period, and in November-to-December 2011, five months that are published on a consistent basis with each other, but that are inconsistent and not comparable with all other historical monthly numbers of recent years, due to concurrent seasonal factors. As seen with the use of concurrent seasonal-adjustment factors in the nonfarm payroll series, the adjusted growth patterns in retail sales can be shifted around from earlier periods, although no reporting of those shifts ever surfaces.

December 2012 PPI. The headline finished-goods PPI declined by 0.20% for the month of December, following a 0.76% monthly decline in November. Although oil prices were stable for the month, gasoline prices declined. A questionable decline in food prices—exacerbated by negative seasonal factors—combined with the lower gasoline prices to generate a net-negative number for December’s PPI inflation.

On a year-to-year basis, December 2012 PPI inflation rose 1.31%; in turn, December 2011 was up by 4.65% from 2010. On an annual-average basis, finished-goods PPI prices were up by 1.94% in 2012, versus 5.95% in 2011.

*[More complete details on December retail sales and PPI are found in the Reporting Detail section.]*

## HYPERINFLATION WATCH

**Hyperinflation Outlook: Background.** The following text is largely as written for the prior and other recent *Commentaries*. It is intended for new subscribers, as well as for those who otherwise are not familiar with the hyperinflation report or the recent special commentary, linked below. Those documents are suggested as background reading on the financial turmoil and currency upheaval facing the United States in the next year or two. This section will be revised fully, following the major December economic and inflation releases this week of January 14th, and following the release of 2012 GAAP-based reporting of U.S. government financials, assuming they are released as scheduled on January 17th.

The November 27, 2012 [Special Commentary \(No. 485\)](#) updated [Hyperinflation 2012](#) and the broad outlooks for the economy and inflation, as well as for systemic stability and the U.S. dollar. These remain the two primary articles outlining current conditions and the background to the hyperinflation forecast.

Subsequent to the *Special Commentary*, neither new economic data nor fiscal developments have altered the outlooks. The expansion of QE3 by the Fed, on December 12th, and the ongoing unwillingness and political inability of the current government to address the longer-range U.S. sovereign-solvency issues only have continued the regular unfolding of events that eventually will trigger a hyperinflation, as discussed in [Commentary No. 491](#).

The Fed’s latest actions can be viewed as a signal of deepening problems in the banking system. As discussed by Mr. Bernanke, the Fed can do little to stimulate the economy, but it can create inflation. Nonetheless, the Fed’s move here was to prop-up the banking system and to provide back-up liquidity to the U.S. Treasury in the months ahead. Direct monetization of Treasury debt will tend to savage the U.S. dollar’s exchange rate, boost oil and gasoline prices, boost money supply growth and domestic U.S. inflation.

Complicating and exacerbating those issues is the failure of the government to make any serious effort at bringing the nation’s extreme and dangerous fiscal conditions into balance, or to move to address the Treasury’s debt ceiling on a timely basis. Despite a two-month “sequestration” delay, the temporary “fiscal-cliff” avoidance may buy the politicians in Washington only a week or two. Market tranquility likely will not last much longer than that, against what should be increasingly evident as disgruntled global markets beginning to move against the U.S. dollar.

## REPORTING DETAIL

### RETAIL SALES (December 2012)

**December Retail Sales Appear to Have Been Boosted by Replacement of Storm-Damaged Automobiles.** The headline 0.5% monthly gain in December retail sales was not statistically significant, and November showed a revised monthly gain of 0.4%. Both those numbers reflected some ongoing impact from Hurricane Sandy, with December's activity likely boosted by sales of replacement automobiles.

Otherwise, highly variable and unstable seasonal factors clouded activity in the October-to-December 2012 period, and in November-to-December 2011, five months that are published on a non-comparable basis with all the other historical monthly numbers, due to concurrent seasonal adjustments.

*Note: The stability of the seasonal-adjustment process (particularly the concurrent seasonal-adjustment process used with retail sales) and of sampling methods 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 well as temporarily from the impact of Hurricane Sandy. Under such circumstances, where the markets effectively are flying blind as to actual economic activity, consideration of broad underlying fundamentals is essential. Consumer income and credit remain structurally impaired, as discussed recently in [Hyperinflation 2012](#), [Special Commentary \(No. 485\)](#) and [Commentary No. 493](#).*

Another regular distortion to the retail sales reporting is in sampling assumptions. Like the Bureau of Labor Statistics, with its payroll survey, the Census Bureau assumes that a non-reporting company still is in business and just didn't get around to filing its sales report on a timely basis. So, where businesses are not able to participate in regular surveying, due to economic or disaster impact, the Census Bureau simply estimates what it feels the missing sales reporting should have been, and those numbers are added into the headline reporting.

**Nominal (Not-Adjusted-for-Inflation) Retail Sales.** This morning's (January 15th) report on December 2012 retail sales—issued by the Census Bureau—indicated a statistically-insignificant, seasonally-adjusted monthly increase of 0.51% (a gain of 0.80% before prior-period revisions) +/- 0.6% (all confidence intervals are at the 95% level), versus a revised monthly gain of 0.38% (previously 0.27%) in November.

Year-to-year, December 2012 retail sales rose by 4.72% +/- 0.8%, versus a revised 4.08% (previously 3.70%) in November. The pattern of rising growth here was due largely to a continuing pattern of unstable concurrent seasonal-adjustment factors and the lack of fully consistent seasonally-adjusted numbers being published by the Census Bureau.

**Core Retail Sales.** In December, monthly grocery-store sales rose by 0.20%, while gasoline-station sales sank by 1.65%, reflecting lower gasoline prices in conjunction with some undetermined relative level of recovery from storm disruptions in November. 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 preference for ignoring food and energy prices when “core” inflation is lower than full inflation—are estimated using two approaches:

Version I: December 2012 versus November 2012 seasonally-adjusted retail sales series—net of total grocery store and gasoline station revenues—was up by 0.87%, versus the official gain of 0.51%.

Version II: December 2012 versus November 2012 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—was up by 0.67%, versus the official gain of 0.51%.

**Real (Inflation-Adjusted) Retail Sales.** With headline December CPI inflation likely to be flat-to-positive, the inflation-adjusted estimate of the monthly retail sales change in December likely will not be much different from the headline 0.5% monthly gain indicated in the nominal reporting. The inflation-adjusted retail sales details will be provided in tomorrow’s (January 16th) *Commentary*, which will cover the release of December 2012 CPI-U.

## PRODUCER PRICE INDEX—PPI (December 2012)

**Despite Monthly Oil-Price Stability, Declining Food and Gasoline Prices Pulled the December PPI Lower by 0.2%.** As reported this morning, January 15th, by the Bureau of Labor Statistics (BLS), the regularly-volatile, seasonally-adjusted finished-goods producer price index (PPI) for December 2012 fell by 0.20% (down by 0.46% unadjusted), following a monthly decline of 0.76% (down by 0.92% unadjusted) in November.

The rounded 0.2% seasonally-adjusted decline reported in headline monthly inflation for December was accounted for by an adjusted 0.3% (unadjusted 1.6%) month-to-month decline in finished energy goods, plus an adjusted 0.9% (unadjusted 0.6%) decline in food prices, offset partially by an adjusted 0.1% gain (unadjusted 0.1% decline) in “core” inflation. Where unadjusted oil prices were stable in December, gasoline prices were lower, and negative seasonal factors enhanced a purported decline in food prices.

Seasonally adjusted, the annualized quarter-to-quarter pace of PPI finished-goods inflation in fourth-quarter 2012 was 2.34%, versus 6.10% in the third-quarter, a contraction of 3.39% in the second-quarter, and a gain of 1.95% in the first-quarter. The quarterly volatility largely matched that of gasoline prices. For the full year of 2012, average year-to-year finished-goods inflation was 1.94%, versus 5.95% in 2011, and versus 4.23% in 2010.

Unadjusted and year-to-year, December’s total finished-goods PPI slowed to 1.31% annual inflation, from preliminary reporting of 1.46% in November. Year-to-year finished-goods inflation was 4.65% in December 2011, and 3.75% in 2010.

Annual change in the PPI has weakened on a monthly basis from a 7.08% near-term peak seen in July 2011, after which the annual numbers began going against a year-ago period where Mr. Bernanke was running QE2, meeting with early success in debasing the U.S. Dollar and generating an increase in oil prices. QE3's impact, so far, has been minimal, from jawboning, not from specific monetary action, with oil prices seeing mixed pressure, due partially to Middle-East political tensions. That should change fairly quickly, as the expanded QE3 and the renewed monetization of U.S. Treasuries begin to hit the U.S. dollar, intensifying upside pressures on oil prices.

Core Finished Goods. "Core" inflation is net of food and energy inflation. The concept of core inflation as a realistic measure of full inflation is nonsensical, where food and energy account for 41.4% of the finished goods PPI (24.6% of the CPI-U, 27.6% of the CPI-W). Even Mr. Bernanke, core-inflation's primary advocate at present, purportedly consumes food and energy.

That said, the core measure, is useful as an indication of how energy prices (in particular) are impacting the broad economy. For December, the seasonally-adjusted month-to-month core PPI was up by 0.05% (down by 0.05% unadjusted) versus November, which, in turn, was up by 0.11% (up by 0.11% unadjusted) versus October. Year-to-year, unadjusted core finished-goods inflation inched lower to 2.00% in December, versus 2.17% in November. A comparison of core PPI with core CPI-U for December will be graphed in the January 16th *Commentary*.

Intermediate and Crude Goods. Reflecting stable oil prices combined with favorable seasonal adjustments, on a monthly basis, seasonally-adjusted December intermediate-goods prices rose by 0.3%, following a 1.2% decline in November, with December crude-goods prices up by 2.5%, following an November increase of 0.1%.

Year-to-year inflation in unadjusted December intermediate goods rose by 0.3%, after falling by 0.3% in November. Year-to-year inflation in December crude goods jumped to 1.6%, from an annual decline of 1.8% in November.

## WEEK AHEAD

***Weaker Economic and Stronger Inflation Data Ahead.*** Beyond what will be the dissipating effects of the repair, replacement and reconstruction activity generated by Hurricane Sandy, and in anticipation of the likely negative impact of expanded QE3 and the ongoing fiscal crisis/debt-ceiling negotiations on the currency markets, reporting in the months and year ahead generally should reflect higher-than-expected inflation and indicate weaker-than-expected economic results. Increasingly, previously unreported economic weakness should continue to show up in prior-period revisions.

*Significant reporting-quality problems continue with most major economic series. Headline reporting issues remain tied largely to systemic distortions of seasonal adjustments, distortions that have been induced by the still-ongoing economic turmoil of the last five years. The recent economic collapse has been without precedent in the post-World War II era of modern economic reporting. These distortions have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series. In any event, where numbers are too far removed from common experience, they tend to be viewed by the public with extreme skepticism.*



*Still, recognition of an intensifying double-dip recession continues to gain, while recognition of a mounting inflation threat has been rekindled by the Fed's monetary policies. The political system would like to see the issues disappear, and still appears to be trying to work numerical slight-of-hand with series such as the GDP; the media does its best to avoid publicizing unhappy economic news or, otherwise, it puts a happy spin on the numbers; and the financial markets 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, as discussed in [Hyperinflation 2012](#) and [No. 485: Special Commentary](#).*

**Consumer Price Index—CPI (December 2012).** The release by the Bureau of Labor Statistics (BLS) of the December 2012 CPI numbers is scheduled for tomorrow, Wednesday, January 16th. The headline CPI-U inflation rate should be flat-to-positive on a monthly basis, with some pick-up possible in terms of annual inflation.

Seasonally-unadjusted, monthly-average gasoline prices declined by 4.0% in December 2012, per the Department of Energy, but that monthly decline should be offset somewhat in BLS calculations by upside seasonal adjustments. In December 2011, a similar 4.0% unadjusted monthly decline revised to a 2.0% drop after seasonal adjustment. With continued upside pressures from both food and core inflation, there is some chance of the December 2012 headline number topping market expectations, which appear to be developing around unchanged, month-to-month.

Year-to-year, CPI-U inflation would increase or decrease in December 2012 reporting, dependent on the seasonally-adjusted monthly change, versus an unchanged level in the adjusted monthly reporting for December 2011. I use the adjusted change here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for December 2012, the difference in December's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the November 2012 annual inflation rate of 1.76%. A headline "unchanged" number would leave annual CPI-U inflation at about 1.8% for December 2012 (year-to-year).

**Industrial Production (December 2012).** Also due for release tomorrow, Wednesday, January 16th, the headline December 2012 industrial production number likely will continue to gyrate, both in hard reporting and in the context of prior-period revisions, as the Federal Reserve begins to get hard numbers against its recent guesses and estimations of the effects from Hurricane Sandy. To the extent there is any gain in December reporting, it likely will be tied to meeting demand for temporary repair-and-replacement storm effects, as seen for example in the replacement of damaged automobiles.

Liquidation opportunities—given already excessive inventory levels—could mute expected production gains, with reporting likely to disappoint minimally-positive market expectations. Again, keep in mind that this series is subject to frequent and significant downside revisions.

**Residential Construction (December 2012).** Detail on December housing starts is due for release on Thursday, January 17th, by the Census Bureau. In tandem with a temporary uptick in December 2012 construction employment and with November's gain in building permits, December reporting on housing starts should begin to see some temporary boost from post-Hurricane Sandy reconstruction efforts. The biggest such effects likely still will be seen in later months.

In the continuing wake of the 75% collapse in activity from 2006 through 2008, and given the ensuing four-year pattern of housing starts stagnation at an historically low level of activity continues, there is no

chance of a sustainable turnaround in the housing construction market, unless the circumstance is affected by a fundamental upturn in consumer and banking liquidity conditions. Chances are fair that any reported monthly gain for December still will not be statistically significant.

***2012 Financial Statement of the United States Government.*** The U.S. Treasury has scheduled the release of the [2012 GAAP-based financial statements](#) for January 17th, an action previously delayed from the statutory release date of December 15th. GAAP-based accounting, including the annual deterioration in the net present value of unfunded liabilities, and reflecting consistent year-to-year accounting methods, likely will show the actual 2012 deficit to have topped \$7 trillion, versus having topped \$5 trillion in 2011. An analysis of the updated numbers will follow in a *Special Commentary* as soon as is practicable following the release.

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