

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

**COMMENTARY NUMBER 505**  
**January CPI, Real Retail Sales and Earnings, Existing Home Sales,  
Fed Easing, Gold and U.S. Dollar**

**February 22, 2013**

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**Real Earnings Fall Year-to-Year**

**January Year-to-Year Inflation: 1.6% (CPI-U), 1.5% (CPI-W), 9.2% (ShadowStats)**

**Aside from Not Measuring Constant-Standard-of-Living Inflation,  
The Chained-CPI Is Too Unstable for Setting Cost-of-Living Adjustments**

**Outlooks Unchanged for Ongoing Economic and System-Liquidity Crises and for  
Inflation Crisis to Develop in Year Ahead**

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*PLEASE NOTE: The next regular Commentary is scheduled for Thursday, February 28th, covering the second estimate of fourth-quarter 2012 GDP, January new orders for durable goods and new home sales.*

*Best wishes to all — John Williams*

**Opening Comments and Executive Summary.** The general outlook for ongoing and deepening economic and systemic-solvency crises is unchanged. Also unchanged is the outlook for a looming, heavy sell-off in the U.S. dollar and for an ensuing inflation crisis.

Major economic reporting for January 2013 has been suggestive of month-to-month stagnation or contraction, and of year-to-year slowing or contraction, in ongoing business activity. While January's

monthly payroll gain was shy of expectations, it was not particularly significant, and it was in the context of a previously-indicated, upside benchmark revision to the data. Nonetheless, annual payroll growth slowed to a thirteen-month low. Although not meaningful in terms of month-to-month change, the January unemployment rate increased in the month (see [Commentary No. 499](#)).

Consumer activity continues to be restricted by structural impairments to consumer liquidity (see *Commentaries* [No. 502](#), [No. 501](#) and [No. 499](#)). Given an “unchanged” January CPI in the month, January retail sales were up by just 0.1%, and January average weekly earnings were unchanged, for the month, both before and after adjustment for inflation. In real terms (inflation-adjusted), annual retail sales growth in January slowed, moving deeper into recession-signal territory, while annual change in average weekly earnings turned negative, as discussed later in this *Commentary*.

Growth in January housing starts turned negative for the month, with annual growth slowing sharply (see [Commentary No. 504](#)). Thanks to series revisions, January existing-home sales rose slightly, instead of falling—but not meaningfully—in the month, as annual growth again slowed sharply. Homes sales are discussed later in this *Commentary* (see *Reporting Detail* section).

January industrial production declined slightly for the month, while annual growth slowed to a pre-recession level. The last time slowing annual growth hit the January 2013 level was in December 2007, the official onset of the “2007 recession” (see [Commentary No. 503](#)).

As discussed later in this *Commentary*, headline January CPI-U inflation was unchanged for the month, for the second month in a row, reflecting seasonal-adjustment suppression of rising gasoline and food prices. Annual inflation softened to 1.6%. Those patterns should be broken to the upside in February, on both a monthly and annual basis, reflecting not only a continued sharp increase in energy and food prices, but also a swing to the plus-side for the monthly seasonal factors that adjust those prices.

In the realm of the financial markets, the gold and currency markets, particularly, have been roiled in the last couple of days by suggestions that the Federal Reserve might pullback in its QE3 asset purchases. The odds of the Fed pulling back on QE3 in the year ahead are close to nil, however, as discussed in the next section.

***With Ongoing Systemic-Solvency and Economic Crises, QE3 Likely Will Be Expanded.*** Based on comments in the February 20th release of minutes of the last Federal Open Market Committee (FOMC) meeting, the markets were disrupted by suggestions that the Federal Reserve might reduce its asset purchases in QE3. While some concerns expressed as to QE3’s negative impacts were legitimate, the published comments deliberately ran contrary to the underlying reality of deteriorating economic and systemic problems, and of the negative impact of low interest rates on the economy. Artificially-low interest rates destroy interest income and impair bank lending. The odds of the Fed pulling back on QE3 in the year ahead are close to nil, given the deepening and ongoing economic and systemic-solvency crises.

More likely, the publication of the market-disruptive comments in the Fed’s minutes was aimed at firming-up the market for the U.S. dollar, and at softening-up the gold market. This is in advance of likely market turmoil in the month(s) ahead from the still-explosive U.S. budget-deficit and long-range sovereign-solvency crises, and from related issues tied to raising the debt-ceiling on U.S. Treasury borrowings.

The Fed is extremely sensitive to publishing comments that could impact the markets, so any such comments that have major market impact almost have to be viewed as deliberate. The wordings of regular statements that follow FOMC meetings, of FOMC meeting notes and of the “beige book” on economic conditions are crafted carefully, with desired market reaction, or lack of reaction, in mind. All the negatives surrounding QE3 were well understood by the Fed in advance of the QE3 introduction September 2012, and in its later expansion in December. Accordingly, the wording of the minutes released on Wednesday (February 20th) most likely was a deliberate and calculated action aimed at moving the currency and precious-metals markets. It also could have been aimed at placating China, where recent public criticism had been offered on the “excessive” money creation in the United States.

Nonetheless, in response to the systemic-solvency crisis and panic of September 2008, the Federal Reserve and the federal government committed themselves to saving the domestic financial system at any cost. All the actions taken then and since have pushed the crises into the future somewhat, nothing more. As the crises move now towards renewed climax, Fed reaction most likely will be even greater easing and monetization of Treasury debt, not a withdrawal from QE3. Given the choice between inflation and dollar-debasement, or imminent systemic collapse, the Fed already has selected inflation and dollar-debasement. As to hyperinflation risks, they are too far into the future (next year?) to worry about.

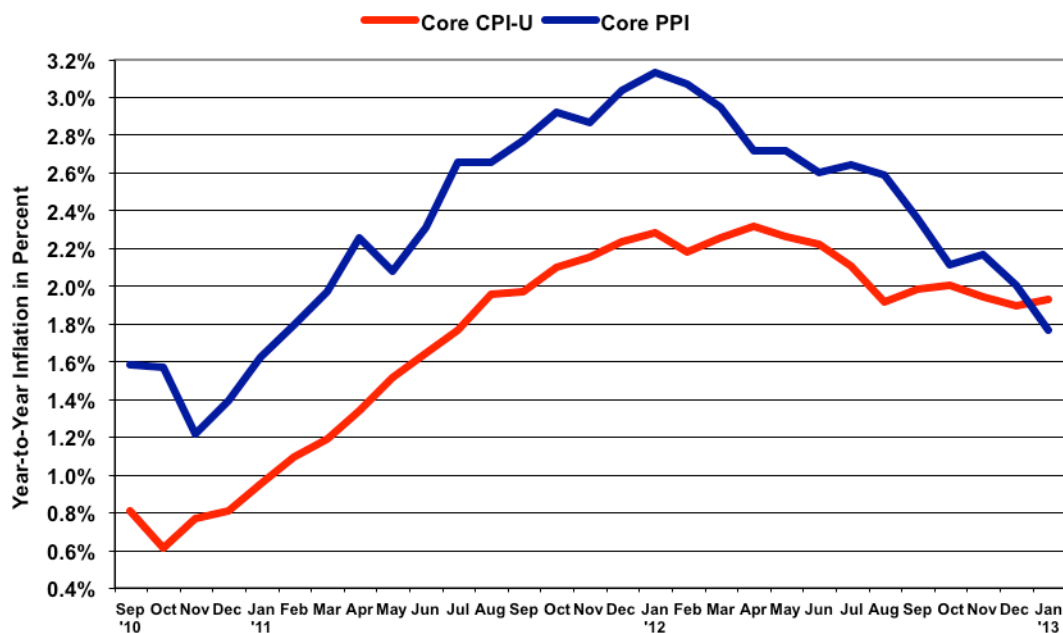
***January 2013 Inflation Reporting.*** In the context of annual revisions to seasonally-adjusted CPI data back to January 2008 (see [Commentary No. 504](#)), the headline CPI-U for January 2013 was “unchanged” for the second month. Seasonal adjustments suppressed the effects of rising monthly gasoline and food prices to the extent that January’s monthly inflation was a 0.3% gain, not seasonally adjusted. As seasonal adjustments reverse their impact in February, monthly and annual spikes in CPI inflation are likely. With the unadjusted data unaltered by the seasonal-adjustment revisions, January 2013 year-to-year inflation for the CPI-U was 1.59%, versus 1.74% in December 2012.

**Core Inflation.** The first graph following shows the ongoing pattern of annual growth in “core” inflation, which is general inflation net of food and energy inflation. The January 2013 year-to-year core rate rose minimally to 1.93% from 1.89% in December. The CPI plot crossed the PPI plot, where the PPI annual core inflation continued turning lower, to 1.77% in January, from 2.00% in December.

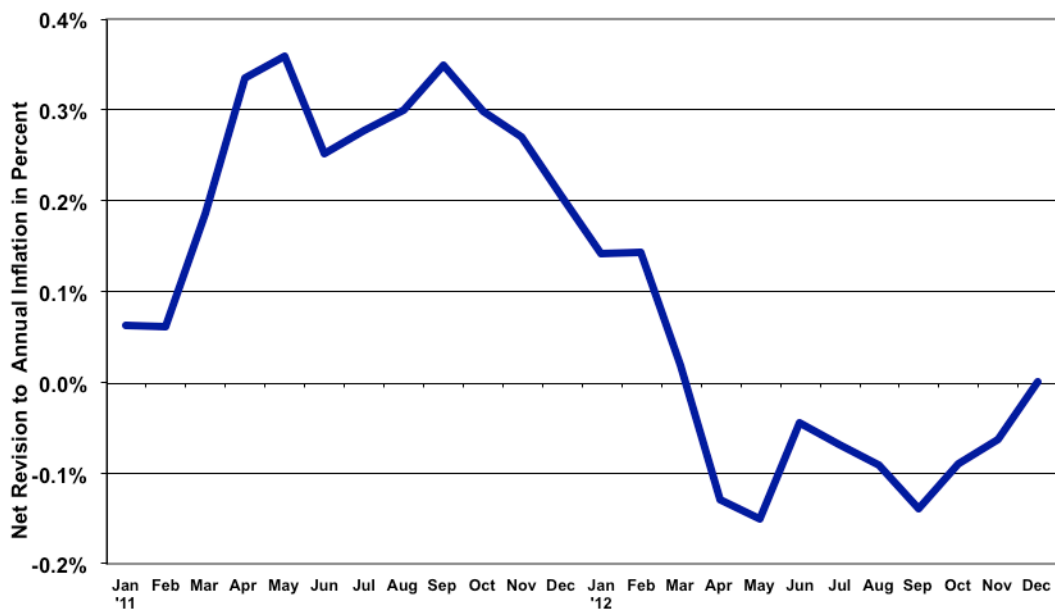
The January 2013 CPI-U annual core rate remained well above the core inflation of 0.61%, seen in November 2010, when Federal Reserve Chairman Bernanke introduced QE2 in a successful bid to debase the U.S. dollar, with the effect of spiking oil prices. The expansion in QE3 into monetization of Treasury debt already may be creating some renewed upside pressures here, despite the Fed’s protestations to the contrary. The still relatively high core annual inflation numbers for both the CPI-U and PPI reflect the ongoing impact of higher energy prices in the broad economy.

**Revisions to the Chained-CPI-U.** The second graph following shows the net revisions to year-to-year inflation in the Chained-CPI-U that were published along with the February 21st release of the CPI. The CPI-U and CPI-W never are revised on a not-seasonally-adjusted basis (barring an outright error in calculation). That feature enables the use of the CPI-U and CPI-W as inflation-adjustment and cost-of-living-adjustment (COLA) measures in contracts, COLA adjustments to Social Security, etc. Although the C-CPI-U has been discussed as a consumer-damaging, budget-cutting replacement for the CPI-W in government COLA adjustments, its reporting is unstable, since it goes through regular revisions every two years. As shown in the graph, the latest revisions would have suggested an upside revision of about three-tenths of a percentage point to any COLA adjustment would have been made previously for 2011.

### "Core" CPI-U and PPI Year-to-Year Inflation Since QE2 Announcement Nov. 3, 2010 (ShadowStats, BLS)



### Net Revisions to C-CPI-U Year-to-Year Inflation (ShadowStats, BLS)



As discussed by the Bureau of Labor Statistics (BLS) in its press release: “Because the current expenditure data required for the calculation of the C-CPI-U are available only with a time lag, the index is issued first in preliminary form, using the latest available expenditure data at the time of publication, and is subject to two subsequent revisions. Therefore, C-CPI-U indexes for the 12 months of 2011 [now] are issued in final form – employing monthly expenditure weights from 2011. Values for the 12 months of 2012 are revised and issued as interim, using expenditure weights from the 2009-2010 period. Calculation of the initial value of the January 2013 C-CPI-U index, and all subsequent months in 2013, will also be based upon 2009-2010 expenditure weights.”

Beyond the C-CPI-U not reflecting the cost of living of maintaining a constant standard of living (it is fully substitution-based see [Commentary No. 489](#) and the [Public Comment on Inflation](#)), it cannot be published on a timely-enough basis to make it feasible as an annual-COLA factor. Unfortunately, the use of this measure as a COLA adjustment appears to be one of the few areas of agreement that repeatedly has been reached by both sides of the budget deficit negotiations.

**January 2013 Real Retail Sales.** With monthly CPI-U inflation unchanged in both January and December, monthly real (inflation-adjusted) growth in those months, respectively 0.1% and 0.5%, is the same as the nominal (not-adjusted-for inflation) growth.

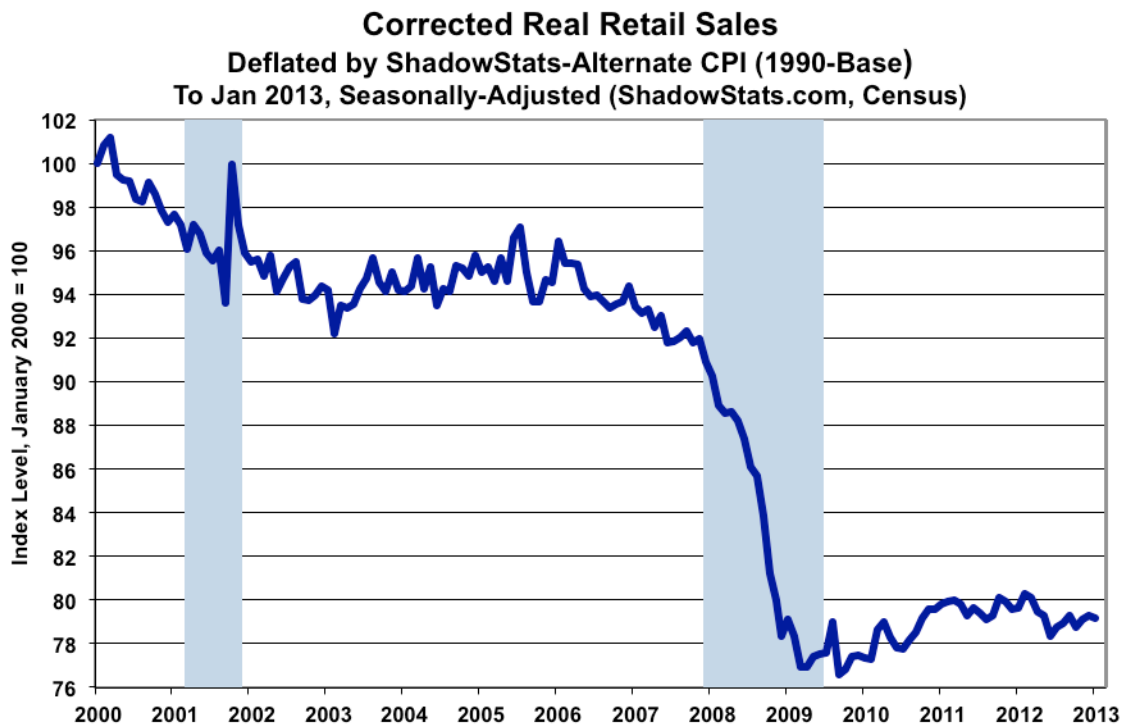
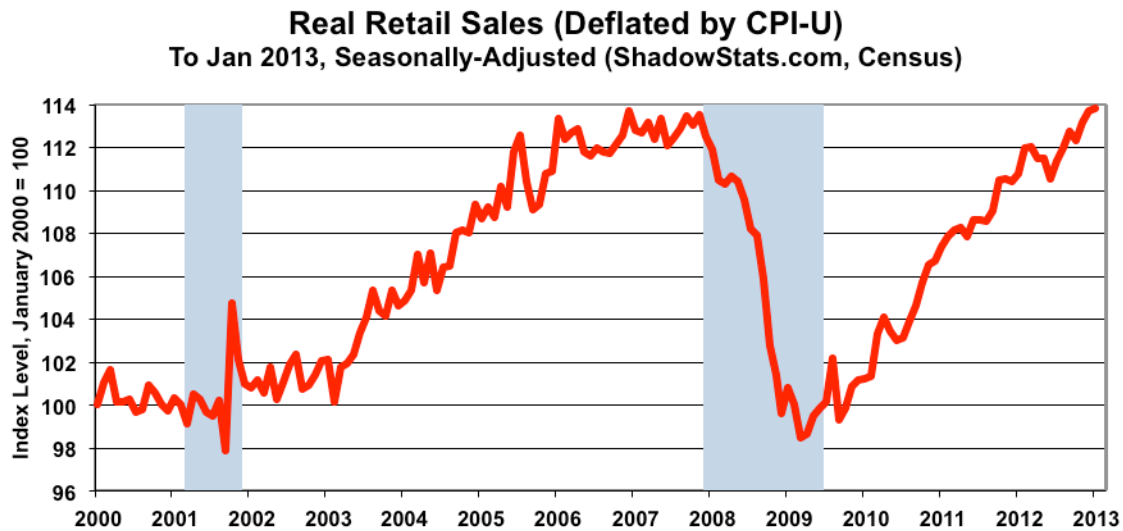
Year-to-year, January 2013 real retail sales rose at an annual pace of 2.75%, a slower pace than the revised December annual gain of 2.99%. The January 2013 annual growth rate was at level that would generate a reliable signal of pending recession, during normal economic times. In the current circumstance, that could be viewed as indicating a pending intensification of the ongoing general downturn.

The first graph following reflects official real retail sales reporting, which, at least temporarily, has regained its pre-recession level. That pattern does not hold, however, if the series is corrected for understated inflation.

As shown in the second graph following, corrected for the use of understated inflation rates used in the economic deflation process, a renewed downturn in activity—following an extended period of low-level stagnation—actually began in second- or third-quarter 2012.

Corrected Retail Sales. The first graph reflects real retail sales as reported by the St. Louis Fed and as deflated by the CPI-U, but it is indexed to January 2000 = 100. The CPI-U, however, understates inflation (see the [Public Comment on Inflation](#)), with the effect of overstating the inflation-adjusted growth.

Instead of being deflated by the CPI-U, the “corrected” real retail numbers in the second graph use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation. As discussed in [Hyperinflation 2012](#) and [Special Commentary \(No. 485\)](#). With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation. The recent topping-out process now has reverted to renewed decline, as of second-quarter 2012, in a series that had been bottom-bouncing along a low-level plateau of economic activity, following the economic collapse of 2006 into 2009. The two retail sales charts are indexed to a consistent scale.



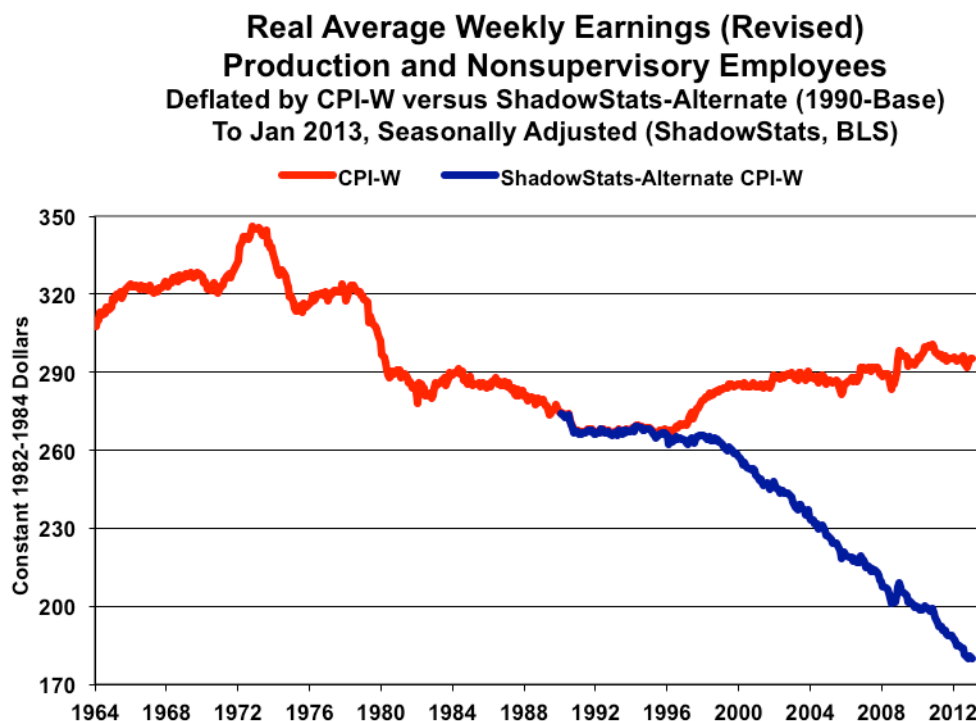
**January 2013 Real Average Weekly Earnings.** Coincident with the CPI release for January 2013, the BLS published real (inflation-adjusted) average weekly earnings for January 2013, along with seasonal-

adjustment and series revisions back to January 1996. Those revisions are reflected fully in the accompanying graph.

The production and nonsupervisory employees series showed that seasonally-adjusted, real average weekly earnings (deflated by the CPI-W) were unchanged for the month of January 2013, having risen by a revised 0.2% in December. Unadjusted and year-to-year, January real earnings declined by 0.2%, following a revised “unchanged” year-to-year circumstance in December 2012.

In the graph, the red line reflects the earnings series as officially deflated by the BLS. As the inflation-depressing methodologies of the 1990s began to kick-in, the artificially weakened CPI-W (also used in 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 flat for the last decade.

Adjusted for the ShadowStats-Alternate CPI measure (1990-based), inflation-adjusted 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 [Public Commentary on Inflation Measurement](#) for further detail.



*[More-complete details on January CPI, real retail sales and real earnings, and details on existing home sales are found in the Reporting Detail section.]*



## HYPERINFLATION WATCH

**Hyperinflation Outlook: Updated Summary.** This updated summary is intended for regular readers, as well as for new subscribers or for those who otherwise are not familiar with the hyperinflation report or recent special commentaries, 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.

The November 27, 2012 [Special Commentary \(No. 485\)](#) updated [Hyperinflation 2012](#) and the broad outlook 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. The basics have not changed here, other than events keep moving towards the circumstance of a domestic hyperinflation by the end of 2014. Nonetheless, a fully updated hyperinflation report is targeted for publication in the March to April timeframe.

The economic and systemic solvency crises of the last eight years continue. There never was an actual recovery following the economic downturn that began in 2006 and collapsed into 2008 and 2009. What followed was a protracted period of business stagnation that began to turn down anew in second- and third-quarter 2012. The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in calculating key economic series. Nonetheless, the renewed downturn likely will gain recognition as the second-dip in a double- or multiple-dip recession.

What continues to unfold in the systemic and economic crises is just an ongoing part of the 2008 panic and near-collapse of the system at the time. All the extraordinary actions and interventions bought a little time, but they did not resolve the various crises. That the crises continue can be seen in deteriorating economic activity and in the panicked actions by the Federal Reserve, where it proactively is monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise. As discussed in the *Opening Comments* section, hoopla to the contrary in the popular press, that the Fed might pull-back on its “easing,” most likely is designed to help firm-up the U.S. dollar and to soften gold in the immediate period running up to the looming crises in the federal-budget and debt-ceiling negotiations.

The Fed’s recent and ongoing liquidity actions also can be viewed as a signal of deepening problems in the banking system. As Mr. Bernanke admits, the Fed can do little to stimulate the economy, but it can create systemic liquidity and inflation. Nonetheless, the Fed’s easing moves have been an ongoing effort to prop-up the banking system and also to provide back-up liquidity to the U.S. Treasury.

Despite the near-term political hype that Congress will come up with a plan to balance the budget in a ten-year time frame, little but gimmicked numbers and further smoke-and-mirrors are likely to come out of the negotiations. Ongoing and deepening economic woes assure that the usual budget forecasts—based on overly-optimistic economic projections—will fall far short of fiscal balance and propriety. Furthermore, chances remain nil for the government addressing the GAAP-based deficit that hit \$6.6 trillion in 2012, instead of the popularly followed, official cash-based accounting deficit in 2012 of \$1.1 trillion, as discussed in [No. 500: Special Commentary](#).

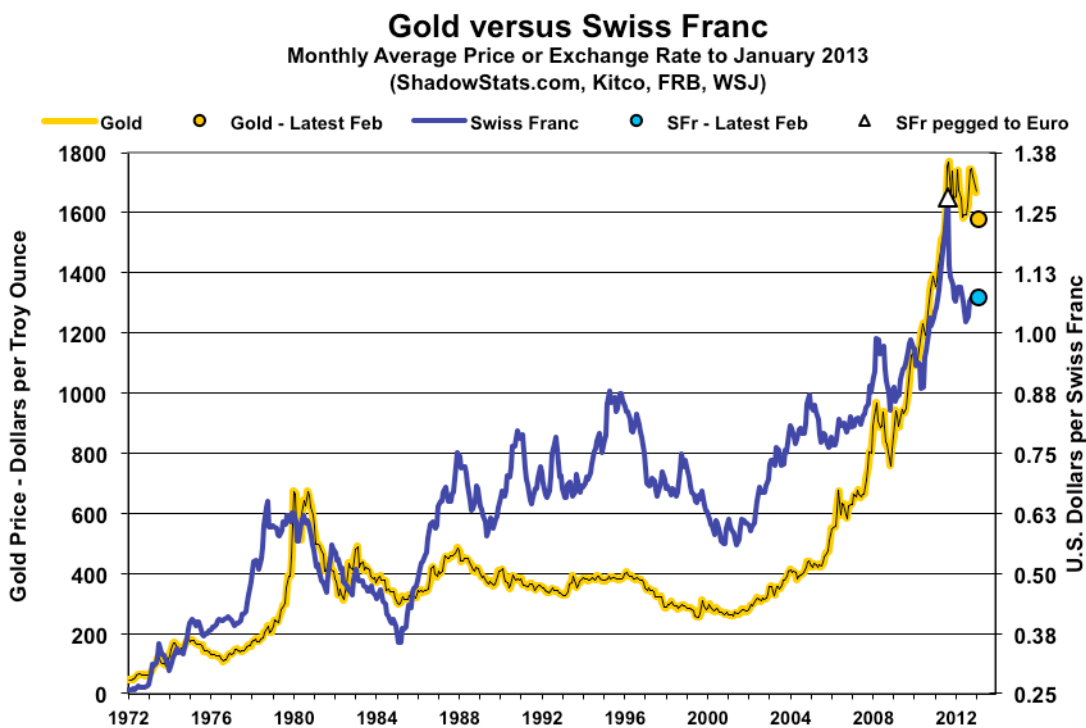
Efforts at delaying meaningful fiscal action, and at briefly postponing conflict over the Treasury’s debt ceiling, have bought the politicians in Washington minimal time in the global financial markets, but the patience in the global markets is near exhaustion. The continuing unwillingness and political inability of



the current government to address seriously the longer-range U.S. sovereign-solvency issues, only pushes along the regular unfolding of events that eventually will trigger a domestic hyperinflation, as discussed in [Commentary No. 491](#). The unfolding fiscal collapse, in combination with the Fed's direct monetization of Treasury debt, eventually will savage the U.S. dollar's exchange rate, boosting oil and gasoline prices, and boosting money supply growth and domestic U.S. inflation. Relative market tranquility likely will not last much longer, despite the tactics of delay by the politicians and obfuscation by the Federal Reserve. This should become increasingly evident as the disgruntled global markets begin to move sustainably against the U.S. dollar, despite any near-term gyrations. A dollar-selling panic is likely this year, with its effects and aftershocks setting hyperinflation into action in 2014.

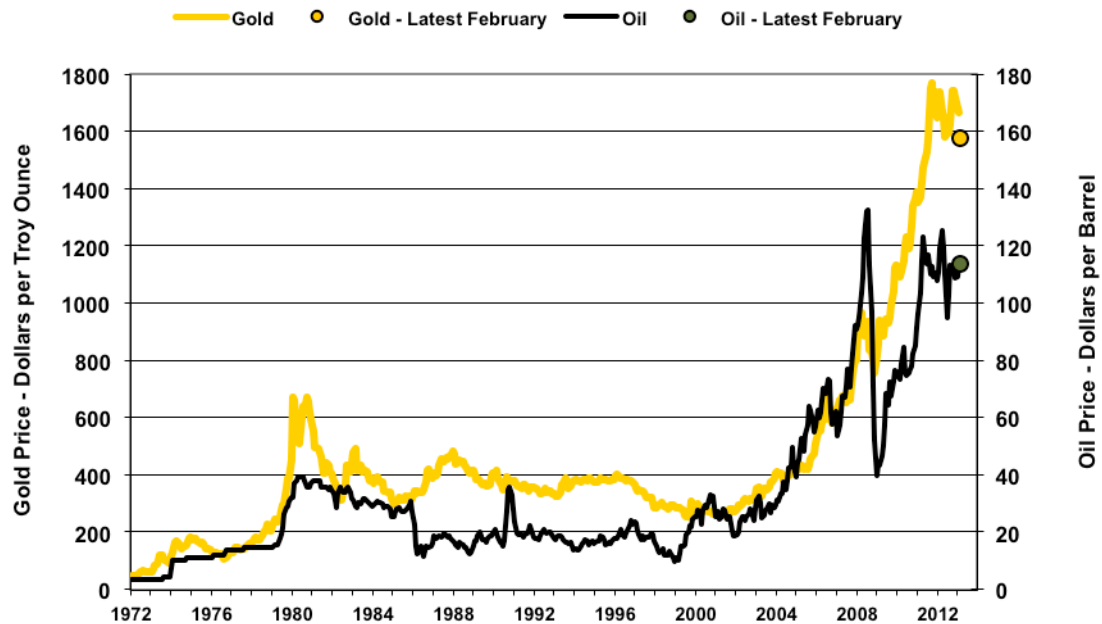
**Monthly Gold Graphs.** Following are the regular graphs of gold prices versus the Swiss franc, oil prices and silver prices that usually accompany the *Commentary* on the monthly CPI release. Market volatility in response to the release of the most-recent FOMC minutes is indicated in the graphs, as we go to press, with the "Latest February" (February 22nd) points.

The pending political negotiations on containing U.S. fiscal excesses and on raising the debt ceiling are much more likely than not to push the value of the U.S. dollar lower versus all of the items tracked in these graphs. Global markets increasingly should move to avoid holding the U.S. dollar, despite any near-term market gyrations from the short-lived effects of jawboning and/or currency intervention.



## Gold versus Oil (WTI/Brent)

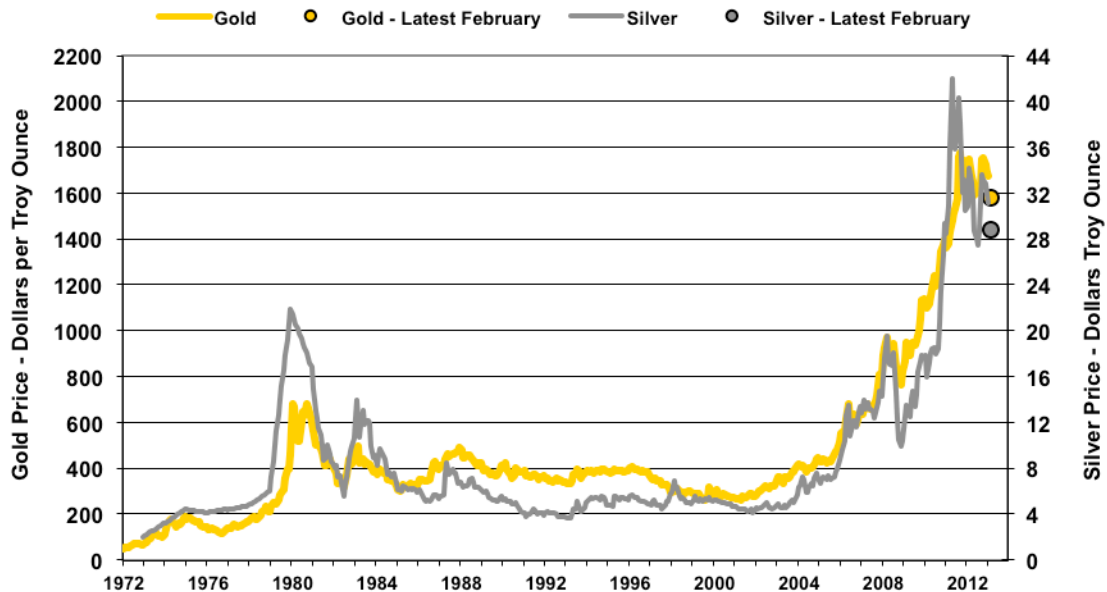
Monthly Average Prices to Jan 2013, Pre-1987 is WTI (ShadowStats.com, Kitco, DOE)



## Gold versus Silver

Monthly Average Price Levels to January 2013

Pre-1981 Silver is Year-End (ShadowStats.com, Kitco, Handy & Harman)



## REPORTING DETAIL

### CONSUMER PRICE INDEX—CPI (January 2013)

**Monthly Consumer Inflation Was Reported Flat for a Second Month.** With seasonal adjustments to the CPI-related series revamped for the last five years (see [Commentary No. 504](#)), monthly and quarterly patterns of inflation change have shifted some, but the unadjusted annual data (including the ShadowStats-Alternate Inflation Measures) have not changed and never are revised, except for correction of outright errors in calculation.

The Bureau of Labor Statistics (BLS) reported an unchanged pace of inflation in January 2013, as well as in December 2012, but that should change meaningfully in February. Rising gasoline and food prices were suppressed in January by seasonal adjustments. Sharp price increases in food and energy have continued in February, and with seasonal adjustments there turning positive in that report, those categories and continued spiking core inflation appear likely to generate a catch-up spike in February 2013 headline monthly CPI inflation, as well as in year-to-year annual inflation. Year-to-year CPI-U eased to 1.6% in January from 1.7% in December.

With the Federal Reserve's direct purchasing and monetization of U.S. Treasury securities, and with renewed turmoil pending in budget and debt-ceiling negotiations, downside pressure on the exchange rate value of the U.S. dollar is likely in the months ahead—irrespective of near-term turbulence—along with related spikes in the price of oil and gasoline. In turn, those should begin to accelerate the pace of consumer inflation—once again—to the upside.

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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. 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 considered by Congress and the White House as a tool for reducing Social Security cost-of-living adjustments by stealth.*

*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.** In the context of the annual revisions to the seasonally-adjusted CPI data back to January 2008 (see [Commentary No. 504](#)), the BLS reported February 21st that the headline, seasonally-adjusted CPI-U for January 2013 was “unchanged” for the month (it was plus 0.03% at the second decimal point, but it was up by 0.09% before prior-period revisions). Suppressed by seasonal adjustments, the not-seasonally-adjusted January CPI-U rose by 0.30% in the month. Seasonally-adjusted December 2012 also was “unchanged” (revised to up by 0.03%, from down by 0.02%) for the month, and it was down an unadjusted and unrevised 0.03%.

A small gain in nominal gasoline prices was suppressed heavily by seasonal adjustments. Unadjusted monthly-average gasoline prices rose by 0.3% in January 2013, per the BLS (same as the more-comprehensive surveying of the Department of Energy). Seasonal-adjustments pushed the higher gasoline prices to a decline of 3.0%. As similar pattern was seen in food prices. Rising “core” inflation otherwise just offset the adjusted decline in the monthly food and energy prices.

With the unadjusted data unaltered by the seasonal-adjustment revisions, January 2013 year-to-year inflation for the CPI-U was 1.59%, versus 1.74% in December.

Year-to-year, CPI-U inflation would increase or decrease in next month’s February 2013 reporting, dependent on the seasonally-adjusted monthly change, versus a reported 0.28% monthly inflation rate in February 2012. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for February 2013, the difference in February’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the January 2013 annual inflation rate of 1.59%.

As discussed in [Commentary No. 504](#), annualized, seasonally-adjusted quarterly inflation for the CPI-U revised to 2.19% (previously 2.05% in fourth-quarter 2012, versus 2.09% (previously 2.30%) in the third-quarter, 1.01% (previously 0.75%) in the second-quarter, and 2.31% (previously 2.48%) in the first-quarter.

**Core CPI-U.** Seasonally-adjusted “core” CPI-U inflation (net of food and energy inflation) rose by 0.25% (0.27% net of prior-period revisions) for the month of January 2013. That was compared to a revised, adjusted monthly gain of 0.12% (previously 0.10%) in December.

Twenty of the last twenty-six months have shown rising year-to-year, or annual, core CPI-U inflation (net of food and energy inflation), with the January 2013 year-to-year core rate rising minimally to 1.93% from 1.89% in December. The PPI annual core inflation continued turning lower, to 1.77% in January, from 2.00% in December.

The January 2013 CPI-U year-to-year core rate still was well above the core inflation of 0.61%, in November 2010, when Federal Reserve Chairman Bernanke introduced QE2 in a successful bid to debase the U.S. dollar, with the effect of spiking oil prices. The recent expansion in QE3 into monetization of Treasury debt already may have created some renewed upside pressures here. The core annual inflation numbers in January 2013 for both the CPI-U and PPI reflected the ongoing impact of higher energy prices in the broad economy (see the graph of CPI-U and PPI core inflation in the *Opening Comments* section).

**CPI-W.** The January 2013 headline, seasonally-adjusted CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, also was “unchanged” (down 0.04% at the second decimal point). In turn, the seasonally-adjusted monthly December number was “unchanged,” revised to a gain that rounded to 0.00% at the second decimal (previously down by 0.04% adjusted, and down by an unrevised and unadjusted 0.31% for the month).

Unadjusted, January 2013 year-to-year CPI-W inflation was 1.48%, down from a 1.68% annual rate in December 2012.

**Chained-CPI-U.** Discussed in the *Opening Comments*, the C-CPI-U, which is not seasonally adjusted, went through its annual revisions, with data from 2011 becoming final, and with the 2012 data still being considered provisional. A serious flaw in this series as a proposed cost-of-living-adjustment (COLA) measure is that the unadjusted series is revised repeatedly over two years, unlike the unadjusted CPI-U and the CPI-W indices, which are not revised, once published.

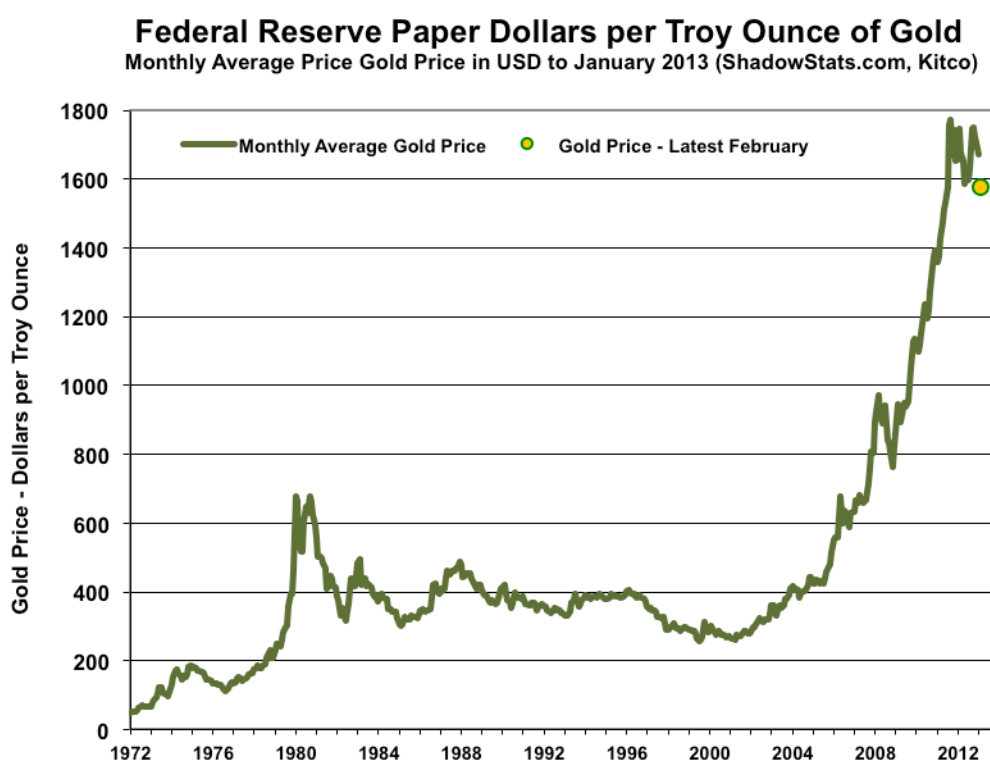
The initial reporting of year-to-year inflation for the C-CPI-U in January 2013 was 1.46%, down from a revised annual inflation rate of an unrevised 1.58% in December 2012. December 2011 year-to-year inflation, however, was revised higher, to 2.93%, from the 2.73% estimate in last month’s reporting.

The Chained-CPI-U is the fully substitution-based series that still is being discussed openly (at one time purportedly agreed to) by the President and Congress as a way to reduce cost-of-living payments for Social Security, etc., by stealth. This outright fraud on the public did not receive good press, as trial balloons were floated. Successful similar efforts at deceptive inflation reporting, in the past several decades, however, account for why today’s headline CPI inflation numbers are so understated (see the discussion in [Public Commentary on Inflation Measurement](#)).

**Alternate Consumer Inflation Measures.** Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-based)—annual CPI inflation was roughly 5.1% in January 2013, versus 5.2% in December 2012.

The ShadowStats-Alternate Consumer Inflation Measure (1980-Based), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, eased to about 9.2% (9.24% for those using the extra digit) in January 2013, versus 9.4% December 2012.

*Note: The ShadowStats-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 ShadowStats adjustment 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. (See the [Public Commentary on Inflation Measurement](#) for further detail.)*



**Gold and Silver Highs Adjusted for CPI-U/ShadowStats 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) for gold on January 21, 1980 would be \$2,516 per troy ounce, based on January 2013 CPI-U-adjusted dollars, and \$9,711 per troy ounce, based on January 2013 ShadowStats-Alternate-CPI (1980-Based) adjusted dollars (all series 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](http://silverinstitute.org)), although approached in 2011, still has not been hit since 1980, including in terms of inflation-adjusted dollars. Based on January 2013 CPI-U inflation, the 1980 silver-price peak would be \$146 per troy ounce and would be \$565 per troy ounce in terms of January 2013 ShadowStats-Alternate-CPI (1980-based) adjusted dollars (again, all series not seasonally adjusted).

As shown in Table 1 on page 50 of [Hyperinflation 2012](#), and as updated in Table III on page 40 of [Special Commentary \(No. 485\)](#), 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 ShadowStats-Alternate Consumer Price Measure (1980-Methodologies Base).

***Real (Inflation-Adjusted) Retail Sales.*** As discussed with the nominal (not-adjusted-for-inflation) retail sales reporting for January 2013 in [Commentary No. 502](#), the seasonally-adjusted headline January retail sales gained 0.1% (0.13%) for the month, following a revised 0.5% (0.50%) monthly gain in December. Aside from the nominal (not-adjusted-for-inflation) monthly sales gains in January and December lacking statistical significance, reporting of actual sales activity continued to be clouded by the use of unusually unstable and questionable seasonal adjustments.

Based on the January CPI-U estimate, and in the context of CPI seasonal-adjustment revisions back to January 2008, inflation- and seasonally-adjusted January 2013 retail sales gained 0.10%, versus a monthly real increase of 0.47% in December.

Year-to-year, January 2013 real retail sales rose at an annual pace of 2.75%, a slower pace than the revised December annual gain of 2.99% (previously 2.93%). The January 2013 annual growth rate was at level that would generate a reliable signal of pending recession, during normal economic times. In the current circumstance, that could be viewed as indicating a pending intensification of the ongoing general downturn.

Hitting Pre-Recession Levels. The first graph following shows the level of real retail sales activity (deflated by the CPI-U) since 2000. The second graph shows the same series in full post-World War II detail. With the December and January reporting, the real retail sales series effectively has recovered pre-recession levels, the only major economic series to do so, other than the GDP, which did that a year ago and has kept rising well beyond the reported activity of retail sales or any other series, since. There is no other major economic series showing the GDP's pattern of official, full recovery and extended new growth.

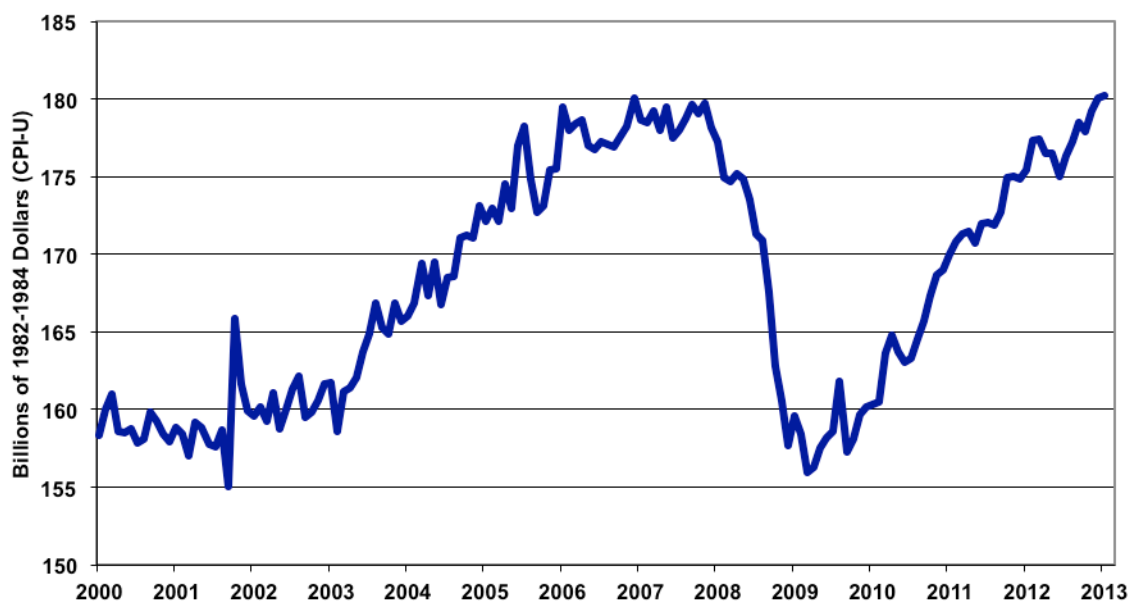
The apparent “recovery” in the real retail sales series (as well as in the GDP) is due to the understatement of the rate of inflation used in deflating retail sales and other series. As discussed more fully in [Hyperinflation 2012](#) and [Special Commentary \(No. 485\)](#), deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth.

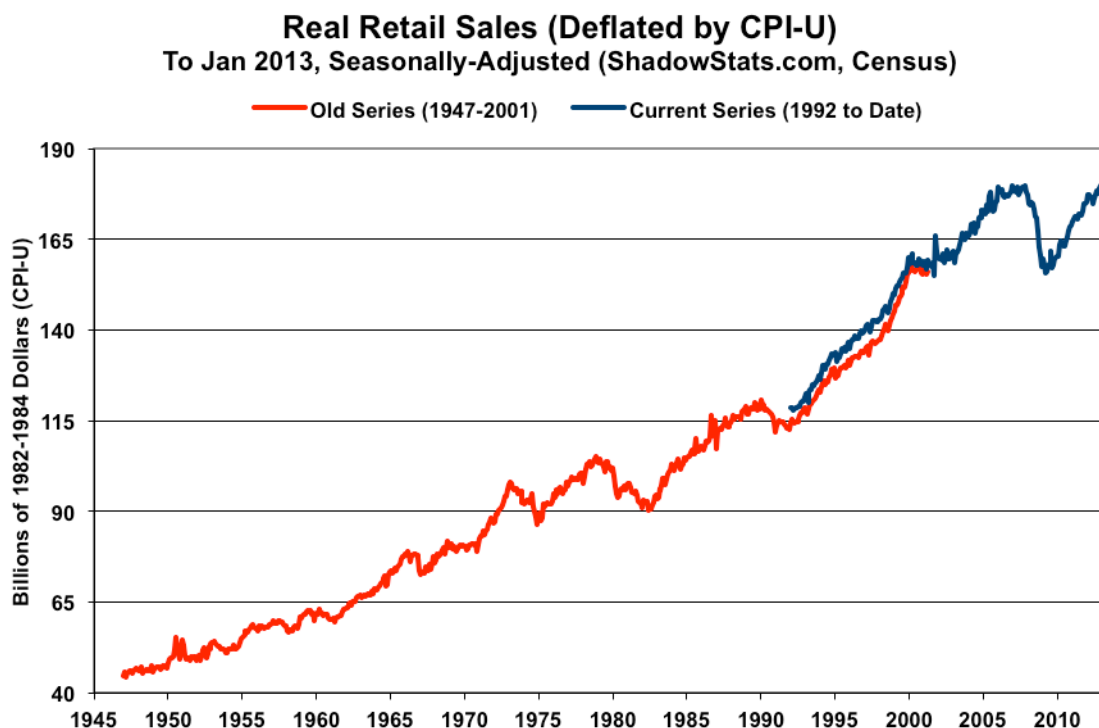
With the deflation rates corrected for understated inflation, the recent pattern of real sales activity turns increasingly negative, as shown in the latest “corrected” real retail sales graph in the *Opening Comments* section. The corrected graph shows the post-2009 period of protracted stagnation ended, and a period of renewed economic contraction began in second-quarter 2012. The corrected real retail sales numbers use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation instead of the CPI-U.

As also discussed, as discussed in [Commentary No. 502](#), there has been no change in the underlying consumer-liquidity fundamentals. There is nothing that would support a sustainable turnaround in retail sales, personal consumption, housing or general economic activity. There has been and is no recovery, just general bottom-bouncing that is turning down anew.

When official consumer inflation resumes its upturn in the February 2013 numbers, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—as reflected partially by real earnings, discussed in the next section, again in the *Special Commentary* linked above and in [Commentary No. 469](#)—these data should trend meaningfully lower, in what eventually will become a formal double-dip recession.

**Real Retail Sales (Deflated by CPI-U)**  
To Jan 2013, Seasonally-Adjusted (ShadowStats.com, Census)





***Real (Inflation-Adjusted) Earnings.*** Coincident with the CPI release for January 2013, the BLS published real (inflation-adjusted) average weekly earnings for January 2013, along with seasonal-adjustment and series revisions back to January 1996. Those revisions are reflected fully in the accompanying numbers and in the usual graph, which is displayed for this *Commentary* in the *Opening Comments* section.

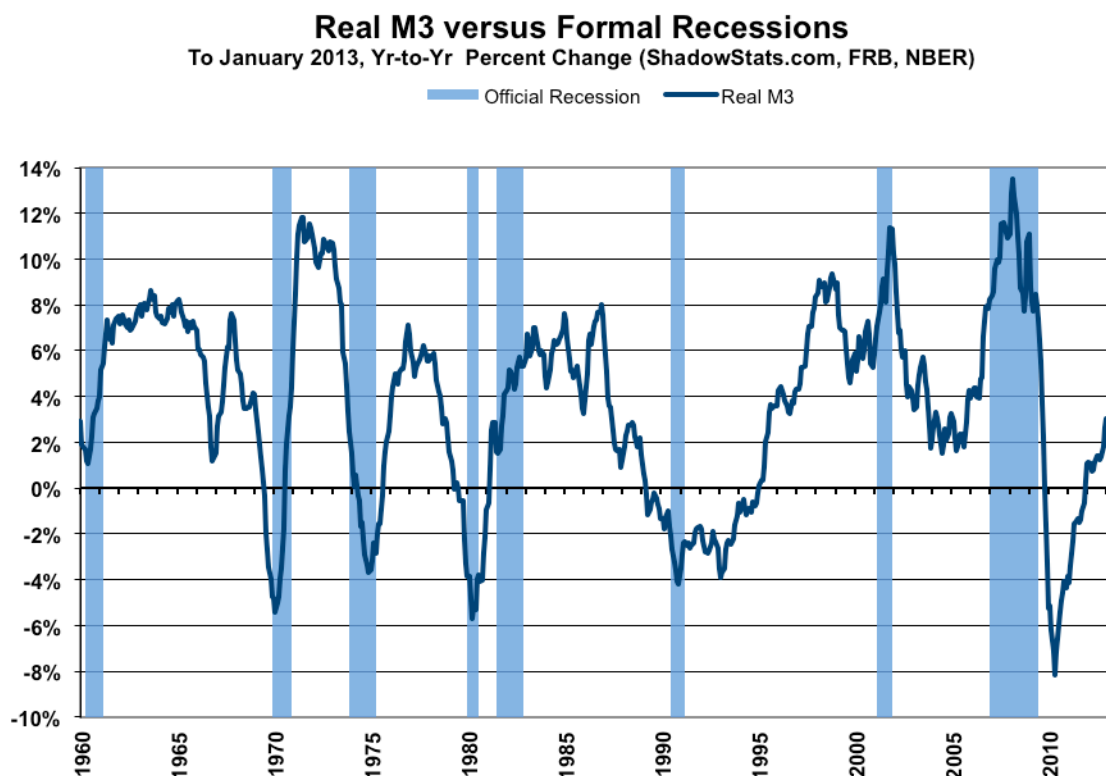
The production and nonsupervisory employees series showed that seasonally-adjusted, real average weekly earnings (deflated by the CPI-W) were unchanged for the month of January 2013, having risen by a revised 0.2% (previously 0.6%) month-to-month in December. The monthly changes here largely reflect the effects of “unchanged” monthly inflation rates in the last two months that were dominated by monthly declines in seasonally-adjusted gasoline prices.

Unadjusted and year-to-year, however, January real earnings declined by 0.2%, following a revised “unchanged” (previously a 0.3% gain) year-to-year circumstance in December 2012. Both the monthly and annual fluctuations in this series are irregular, and current reporting remains well within the normal bounds of volatility.

As officially deflated by the BLS, when the inflation-depressing methodologies of the 1990s began to kick-in, the artificially weakened CPI-W (also used in 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 flat for the last decade. Adjusted for the

ShadowStats-Alternate CPI measure (1990-based), inflation-adjusted 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 [Public Commentary on Inflation Measurement](#) for further detail. These patterns are reflected in the graph shown in the *Opening Comments* section.

**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 [Hyperinflation 2012](#), remains in place and continues, despite real annual M3 growth having turned to the upside. As shown in the preceding graph—based on the January 2013 CPI-U report and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for January 2013 was 3.0% versus a revised 2.6% (previously 2.8%) in November. The difference was split between a pick-up in M3 annual growth and a drop in year-to-year CPI-U inflation. The revised growth in December was due to Federal Reserve benchmark revisions to a variety of money measures.



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, even though there had been no upturn since the economy hit bottom in mid-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. Actual post-2009 economic activity has remained at low levels in protracted stagnation, as discussed in [\*Special Commentary \(No. 485\)\*](#).

A renewed downturn in official data is becoming more obvious, and that eventually should lead to official recognition of a double-dip recession. Reality remains that the economic collapse into 2009 was followed by a plateau of low-level economic activity—no upturn or recovery, no end to the official 2007 recession—and the unfolding renewed downturn remains nothing more than a continuation and re-intensification of the downturn that began in 2006.

## EXISTING-HOME SALES (January 2013)

**January Existing-Home Sales Increase of 0.4% Remained Well Within Normal Scope of Month-to-Month Volatility and Revisions.** Beyond the massive downside corrections to the existing-home sales series—published with November 2011 data—reporting for the existing-home sales series remains subject to a high level of irregular volatility and significant seasonal-factor instabilities, as also has been seen in a number of government series. Those seasonal-factor distortions are a result of the severe depth and length of the economic contraction, a circumstance that post-World War II (or modern) economic reporting never was designed to handle.

In the latest reporting, seasonal factors in the series were revised back to January 2010, and they have been updated in the accompanying graph. As shown in the graph, though, the old (pre-November 2011) and corrected series do not appear to be consistent or comparable, effectively a discontinuity in the series. Seasonal-factor distortions have been skewed, not only by protracted, collapsing activity, but also by the impact of various stimulus/tax-incentive packages, and lapsing of same, for home buyers that pulled some future sales activity into the periods of the incentives.

The horizontal line in the graph is the average monthly level for the period of extreme sales volatility. With those sales swings, averaged out, the pattern of activity resembles the bottom-bouncing seen previously in the new-home sales, and in housing-starts activity discussed in the prior section, although the existing home sales peak-to-trough contraction never was as severe as that seen in the sales tied to new construction.

**January 2013 Existing Home Sales Reporting.** The February 21st release of January 2013 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted monthly gain of 0.4% (a decline of 0.4% before prior-period revisions). January's 0.4% sales gain, to seasonally-adjusted monthly unit sales pace of 410,000 (an annualized pace of 4,920,000), was well within the normal month-to-month volatility for this series. The monthly change in December 2012 sales was a revised decline of 1.2% (previously 1.0%).

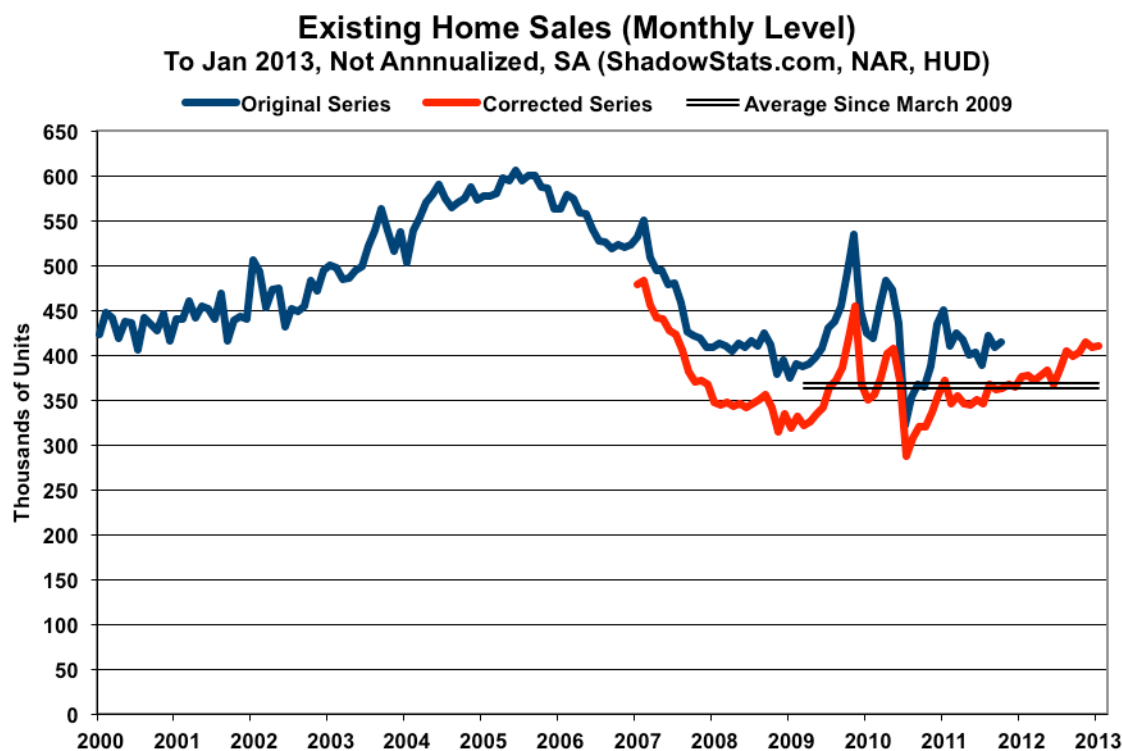
The current reporting was in the context of seasonal-adjustment revisions back to January 2010, and a reporting revision to December 2012. Generally, the revisions shifted reported estimates of sales growth from first-half 2012 to the second-half.

On a year-to-year basis, January 2013 sales rose by 9.1%, a slower pace of gain than the revised 12.6% (previously 12.8%) annual gain in December 2012. Recent volatility in annual change still partially reflects the effects of lapsing housing stimulus efforts the year before. Smoothed for irregular distortions, the series remains statistically consistent with an ongoing pattern of broad stagnation.

The portion of distressed properties in existing sales eased in the latest reporting. The NAR estimated January's "distressed" sales were at 23% (14% foreclosures, 9% short sales), versus December's estimate of 24% (12% foreclosures, 12% short sales).

Reflecting ongoing lending issues within the banking industry, the NAR estimated all-cash sales in January 2013 were 28% of the total, versus 29% in December 2012 and 31% in January 2012.

The published median and average sales price data for existing homes tend to be of limited usefulness, since they usually reflect shifting patterns of home buying—between differently-priced segments—more than they do changes in truly comparative prices. That said, both median and mean existing-home sales prices in January 2013 (not seasonally-adjusted) were reported down month-to-month, but up year-to-year.





## WEEK AHEAD

***Weaker Economic and Stronger Inflation Data Are Likely.*** Beyond 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 reported 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 it still appears to be trying to work numerical slight-of-hand with series such as the GDP and related projections of the federal budget deficit. The media do their best to avoid publicizing unhappy economic news or, otherwise, they put a happy spin on the numbers. Pushing the politicians and media, the financial markets and related spinmeisters 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](#).*

***New-Home Sales (January 2013).*** The January new-home sales report from the Census Bureau is due for release on Tuesday, February 26th. As with January existing home sales (see above) and housing starts (see [Commentary No. 504](#)), an entrenched pattern of stagnation likely has continued in the series, with the pending report of monthly change in sales activity not likely to be statistically-significant.

***New Orders for Durable Goods (January 2013).*** The reporting of January 2013 new orders for durable goods is scheduled for Wednesday, February 27th, by the Commerce Department. Despite the sharp and irregular volatility in commercial aircraft orders, new orders have been trending lower. That trend likely will continue, with a general intensification of downside movement in orders for at least the next several months.

In terms of the potential inflation contribution to the monthly and annual change in new orders, the seasonally-adjusted, month-to-month increase in the January 2013 PPI finished goods capital equipment index was 0.1%, with year-to-year unadjusted inflation at 1.0%. Due to hedonic-quality adjustments to this portion of the PPI series, however, as with the GDP numbers, those inflation data understate inflation reality and, correspondingly, overstate inflation-adjusted growth, by perhaps two-percentage points per year.

***Gross Domestic Product—GDP (Fourth-Quarter 2012, Second Estimate, First Revision).*** The second estimate (first revision) of fourth-quarter 2012 GDP growth is due for release by the Bureau of Economic

Analysis (BEA) on Thursday, February 28th. Market expectations appear to be developing around a relatively large upside revision, following the “advance” estimate of an annualized, quarterly inflation-adjusted contraction of 0.1%.

An upside first revision would be supported by new trade-balance and industrial-production data published subsequent to the first GDP estimate. Subsequent retail sales and housing data suggest little change. As a rough rule of thumb, when the initial estimate comes in well below the consensus outlook, which was the circumstance here, the first revision tends to move even further from that consensus. The reason for this is that the BEA largely guesses at the early numbers and tends to target the consensus outlook. Where there was a wide, negative divergence from the consensus in initial reporting of fourth-quarter GDP, the initial estimate already has been biased to the upside—away from what the BEA was seeing with its own estimates—towards the consensus outlook. Catch-up reporting should tend to move back towards the weaker BEA data.

Where the economy appears already to have turned down, a second- or third-quarter 2012 contraction in GDP actually could surface in the July 2013 annual GDP revisions, marking the onset of a formal second-dip in a double-dip recession.

Whatever is reported, the updated number most certainly still will not be statistically significant, with the GDP series remaining the most worthless, the most heavily politicized and the most misleading of any major government economic statistical release.

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