

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

COMMENTARY NUMBER 620
March CPI, Real Retail Sales and Earnings

April 15, 2014

First-Quarter 2014 Real Retail Sales Contracted at Annualized Pace of 1.6%

**Unadjusted March CPI-U Inflation of 0.6% Was Squashed to 0.2%,
Hit Hard by Seasonal Adjustments for Third Month**

March Annual Inflation: 1.5% (CPI-U), 1.4% (CPI-W), 9.2% (ShadowStats)

**Real Average Hourly Earnings Dropped 0.3% in March,
But Average Weekly Earnings Rose by 0.6%**

PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Wednesday, April 16th, covering housing starts, industrial production and a summary of major March 2014 economic reporting.

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE COMMENTARY

Despite Inflation Understatement, Quarterly Real Retail Sales Contracted. Significant quarterly deterioration is in place now for the trade deficit and for inflation-adjusted retail sales. First-quarter GDP is in trouble, as a result.

Where the releases of [2014 Hyperinflation Report—The End Game Begins](#) *First Installment Revised* (April 2nd) and [2014 Hyperinflation Report—Great Economic Tumble](#) *Second Installment* (April 8th)

present a broad picture of likely economic, systemic and financial conditions in the coming year, this week's reporting will do much to set consensus expectations for the headline first-quarter GDP estimate, due for publication on April 30th.

Tomorrow's (Wednesday, April 16th) *Commentary No. 621*, covering March 2014 residential construction (housing starts) and industrial production numbers, will include an updated summary of the latest economic detail. Those remaining major March reports (see *Week Ahead* section) generally should disappoint market expectations and move the consensus outlook increasingly towards a pending GDP contraction.

Today's *Commentary* concentrates on the detail of the March 2014 CPI-U and related series.

March Headline Inflation Pummeled Again by Warped Seasonal Adjustments of Energy Inflation.

Where instabilities seen in last year's month-to-month headline inflation numbers were due largely to poor-quality seasonal adjustments (see [Commentary No. 602](#)), those problems have continued into 2014.

For the third straight month, energy inflation was suppressed sharply by wayward seasonal adjustments, warped by non-seasonal, irregular and highly volatile swings in oil prices since the 2008-panic. Price volatility has been tied much more to movement in the U.S. dollar and to global political developments, than it has been to regular seasonal demand factors for petroleum products.

Primarily as a result of these seasonal distortions in energy inflation, recent headline CPI-U inflation has been suppressed sharply. In both January and February 2014, headline CPI-U was up by 0.1% adjusted, but up by 0.4% before seasonal adjustments. For March, headline CPI-U was up by 0.2% adjusted, but up by 0.6% unadjusted.

When headline inflation gets understated due to bad seasonals, there is a period of catch-up that follows within the year. The current period is one of headline CPI-U inflation understatement, and that should flip to the other side by mid-year.

CPI-U. The headline, seasonally-adjusted CPI-U for March 2014 rose month-to-month by 0.2% (0.20% at the second decimal point). On a not-seasonally-adjusted basis, the March CPI-U rose by 0.64%. The February CPI-U had increased by 0.1% (0.10% at the second decimal point), and was up by 0.37% on a not-seasonally-adjusted basis. Also not seasonally adjusted, March 2014 year-to-year inflation for the CPI-U was a gain of 1.51%, versus 1.13% in February.

Major CPI Groups. Encompassed by the headline March 2014 CPI-U gain of 0.2% (up by 0.6% unadjusted), aggregate energy inflation in March was down by an adjusted 0.1% (up by an unadjusted 3.5%) for the month. In the other major CPI sectors, adjusted food inflation was up by 0.4% for the month (up by 0.3% unadjusted), while "core" inflation rose by an adjusted 0.2% (up by 0.4% unadjusted).

Core CPI-U. Seasonally-adjusted March 2014 "core" CPI-U inflation (net of food and energy inflation) rose by 0.20% (0.35% unadjusted) versus an adjusted 0.12% (0.30% unadjusted) in February. Year-to-year "core" inflation was 1.66% in March, versus 1.57% in February.

CPI-W. The March 2014 headline, seasonally-adjusted CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose by 0.19% (up by 0.73% unadjusted), versus an adjusted 0.05% gain in February (up by 0.36% unadjusted). Unadjusted, March 2014 year-to-year CPI-W inflation jumped to 1.41%, from 0.98% in February.

Chained-CPI-U. Initial reporting of unadjusted year-to-year inflation for the March 2014 C-CPI-U was 1.36%, up from 0.97% in February.

Alternate Consumer Inflation Measures. The ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—annual inflation was roughly 5.1% in March 2014, up from 4.7% in February. The ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, rose to about 9.2% (9.20% for those using the second decimal point) in March, versus 8.8% in February 2014.

Real (Inflation-Adjusted) Retail Sales—March 2014—Recession Looms. As deflated by the CPI-U, first-quarter 2014 real retail sales contracted at an annualized pace of 1.6%, versus fourth-quarter 2013 activity. In turn, fourth-quarter 2013 real sales grew at an annualized pace of 1.8% versus third-quarter activity. The first-quarter real retail sales contraction also will be seen with the sales deflated by the personal consumption expenditures (PCE) deflator used in the GDP.

In conjunction with the recently reported widening of the first-quarter 2014 trade deficit (see [Commentary No. 615](#)), the quarterly contraction in real retail sales should hit first-quarter GDP growth hard, but there will be more to come here, as will be discussed in tomorrow's (April 16th) *Commentary No. 621*.

Separately, inflation-adjusted (CPI-U) year-to-year change in retail sales since World War II (see graphs in the *Reporting Detail* section), generally has signaled a pending recession whenever growth has fallen below 2.0%. Annual growth jumped to 2.2% in March, but that was followed 0.6% annual growth in February and 0.3% in January 2014. The series has generated—in the last three months—the strongest recession signal seen since December 2007, the formal onset of the 2007 recession.

As covered in [Commentary No. 619](#), the nominal monthly gain of 1.14% in headline March 2014 retail sales, a revised February gain of 0.73% (previously 0.27%), and a revised January 2014 decline of 0.68% (previously down by 0.64%, initially down by 0.41%), all were before accounting for inflation.

Based on today's reporting of a 0.20% headline gain in the March 2014 CPI-U, and in the context of prior February and January CPI-U reporting, seasonally-adjusted real (inflation-adjusted) monthly retail sales rose by 0.93% in March, following a revised 0.63% (previously 0.17%) gain in February, and a revised 0.82% (previously 0.78%, initially 0.55%) plunge in January 2014.

Year-to-year change in March 2014 real retail sales was a 2.21% gain, versus a revised 0.65% (previously 0.37%) gain in February, and versus a revised 0.34% (previously 0.38%, initially) gain in January.

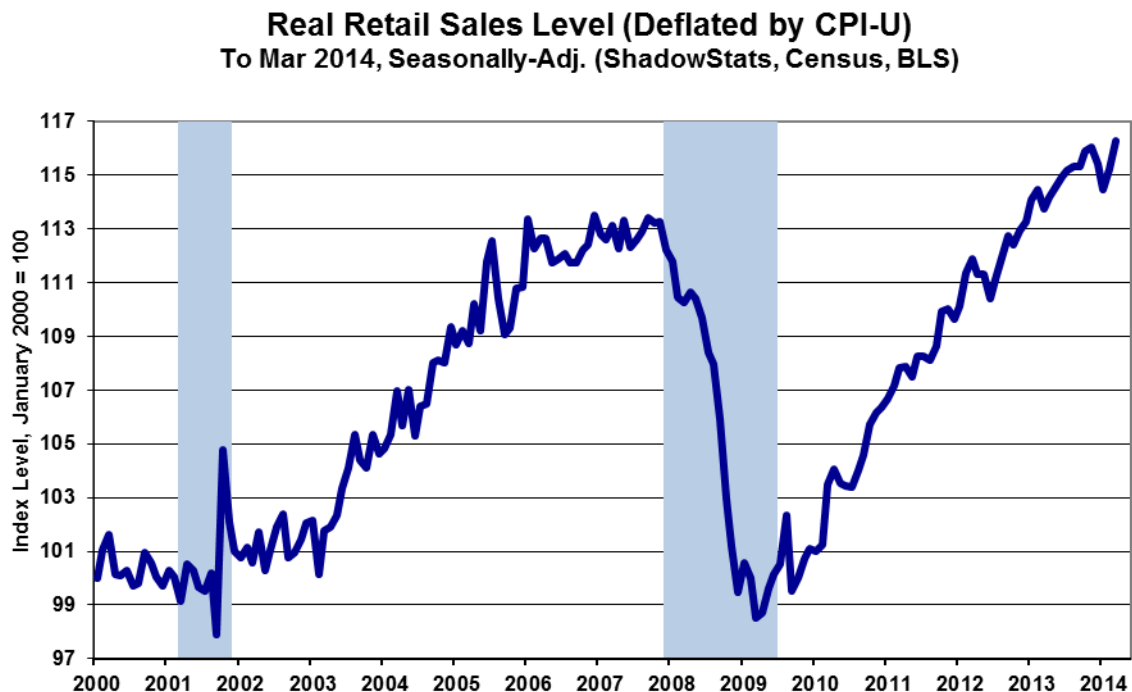
In the current circumstance, the annual-growth recession signal likely will serve as an indicator of a renewed downturn in broad economic activity, if not an outright contraction in economic activity in the

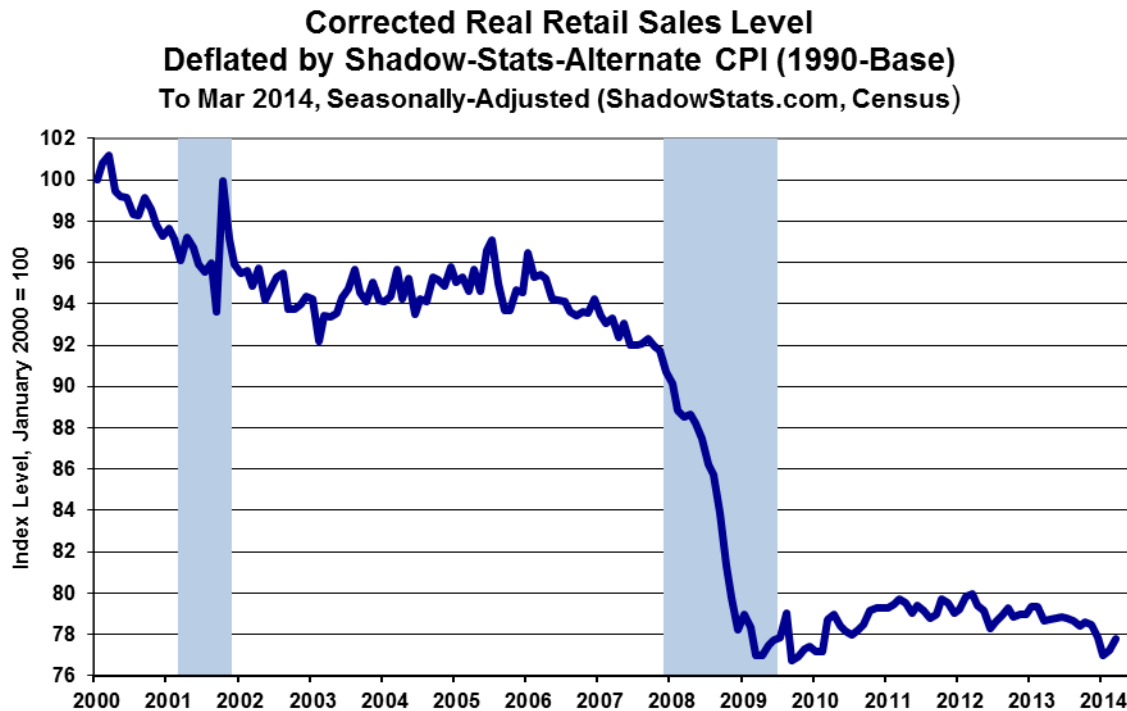
current quarter. Again, with first-quarter 2014 in place, first-quarter real retail sales showed an annualized quarterly contraction of 1.60%, following a 1.78% annualized gain in fourth-quarter 2013.

Also discussed in [Commentary No. 619](#), 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 never was a broad economic recovery, and there is no recovery underway, just general bottom-bouncing that is turning down anew.

As official consumer inflation continues its upturn in April and the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by continued real earnings difficulties, discussed in the next section—these data should continue to trend meaningfully lower, in what rapidly should gain recognition as a formal new or double-dip recession.

Corrected Retail Sales. The first graph following reflects real retail sales as usually reported by the St. Louis Fed, deflated by the CPI-U, but it is indexed to January 2000 = 100. ShadowStats did the deflation using the March 2014 CPI-U and nominal retail sales releases. As seen in the first graph, official real retail sales recently recovered its pre-recession high, and hit a new post-recession high in March, but that is a statistical illusion. Even so, the first-quarter 2014 activity was below that of fourth-quarter 2013. That said, the CPI-U understates inflation (see the [Public Comment on Inflation](#)), with the effect of overstating inflation-adjusted activity, as seen in the real or inflation-adjusted retail sales series.





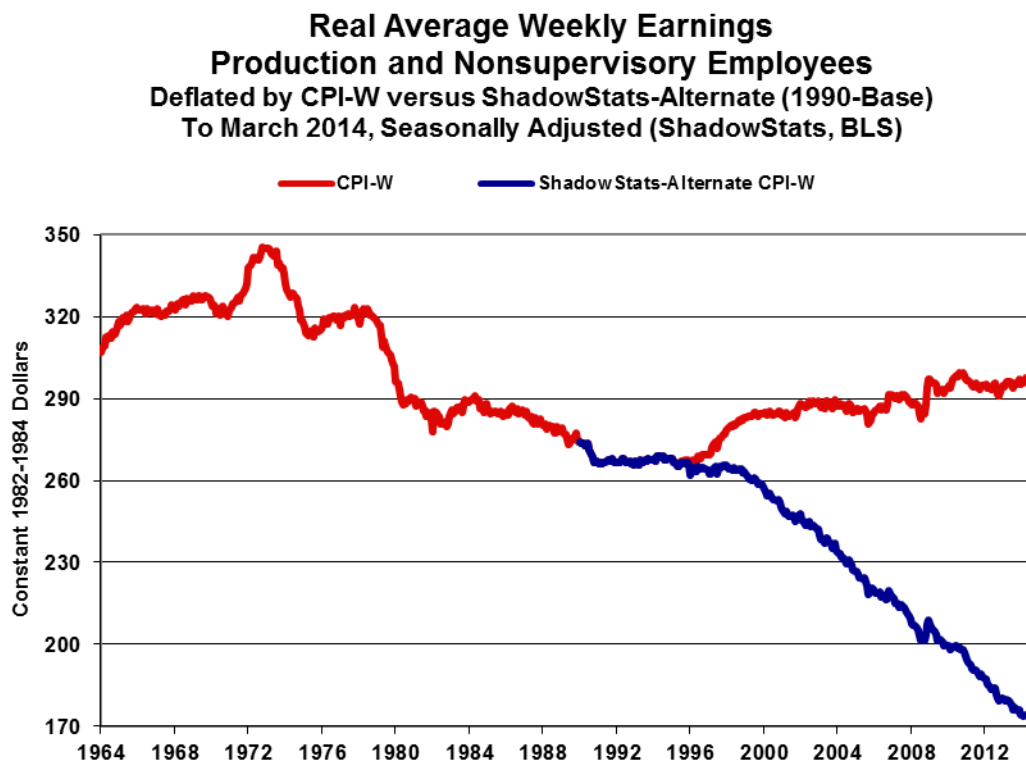
Instead of being deflated by the CPI-U, the “corrected” real retail sales numbers in the second graph, use the ShadowStats-Alternate Inflation Measure (1990-Base) for deflation.

With the higher inflation of the ShadowStats measure, the revamped numbers show a pattern of plunge and stagnation and renewed downturn, consistent with patterns seen in real median household income, consumer confidence measures, unemployment and housing statistics. A topping out in late-2011 and early-2012 reverted to renewed decline in second-quarter 2012 in this series, which had been bottom-bouncing along a low-level plateau of economic activity since the economic collapse from 2006 into 2009. The renewed contraction has been deepening coming into 2014.

Real Average Weekly Earnings—March 2014—Gain for the Month. In the production and nonsupervisory employees series—the only series for which there is a meaningful history—headline real average weekly earnings (deflated by the CPI-W) rose by 0.61% in March, reflecting a 0.34% monthly decline in average hourly earnings being more than offset by a 0.90% increase in average hours worked. That followed a revised decline of 0.16% in February average weekly earnings.

Year-to-year, March 2014 real average weekly earnings growth was 0.50%, versus a revised 0.29% gain in February. Both the monthly and annual fluctuations in this series are irregular, but current reporting remains well within the normal bounds of volatility. Prior-period revisions usually are due to the instabilities in the BLS monthly surveys.

The following graph of this series plots the earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been flat for the last decade. Deflated by the ShadowStats measure, real earnings have been in fairly regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See [Public Commentary on Inflation Measurement](#) for further detail.



[For further detail on the March CPI-U and related series, see the Reporting Detail section, and ShadowStats-affiliate www.ExpliStats.com]

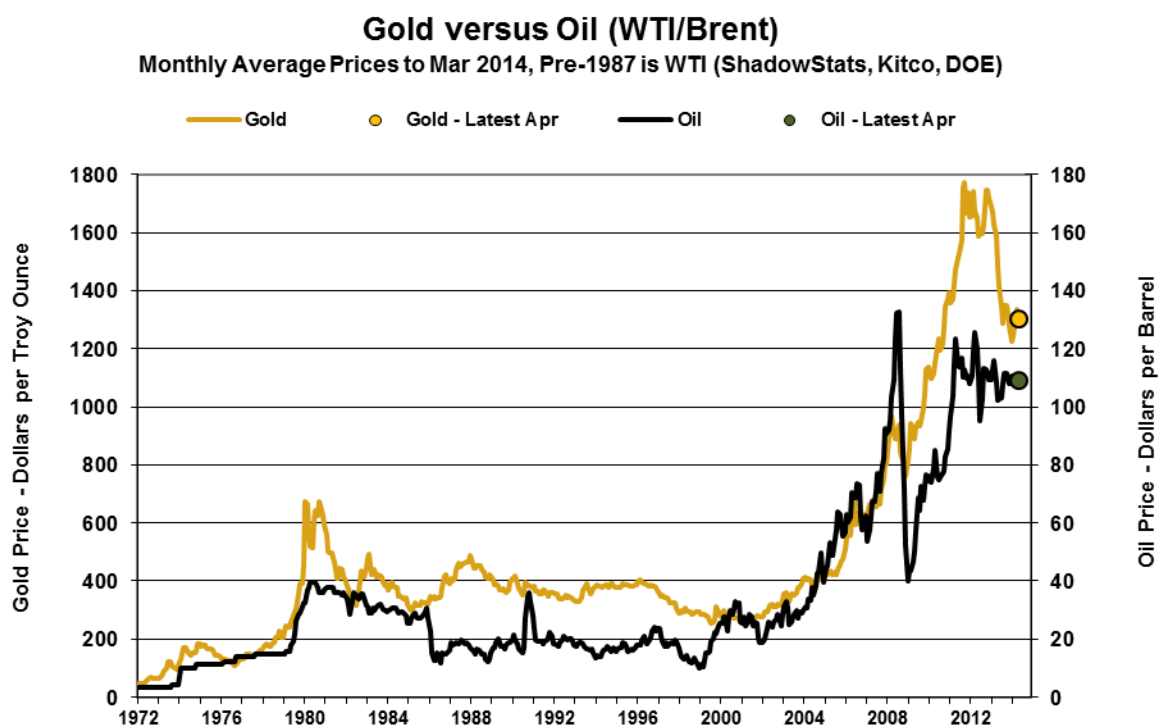
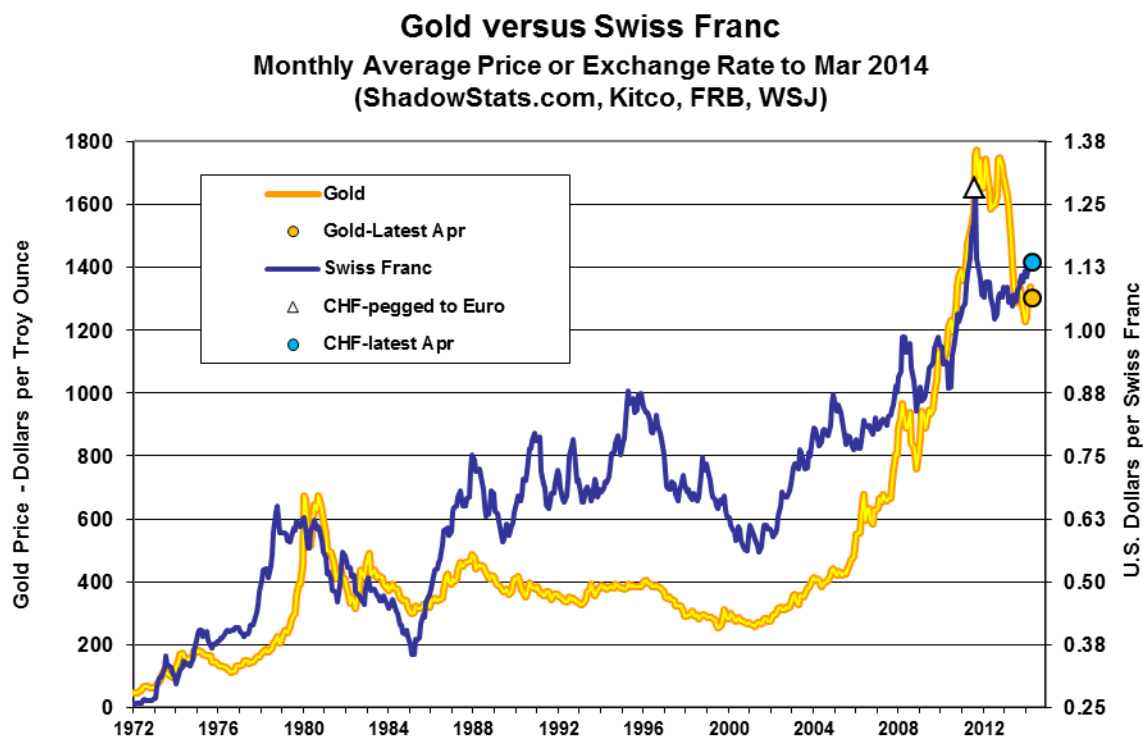
HYPERINFLATION WATCH

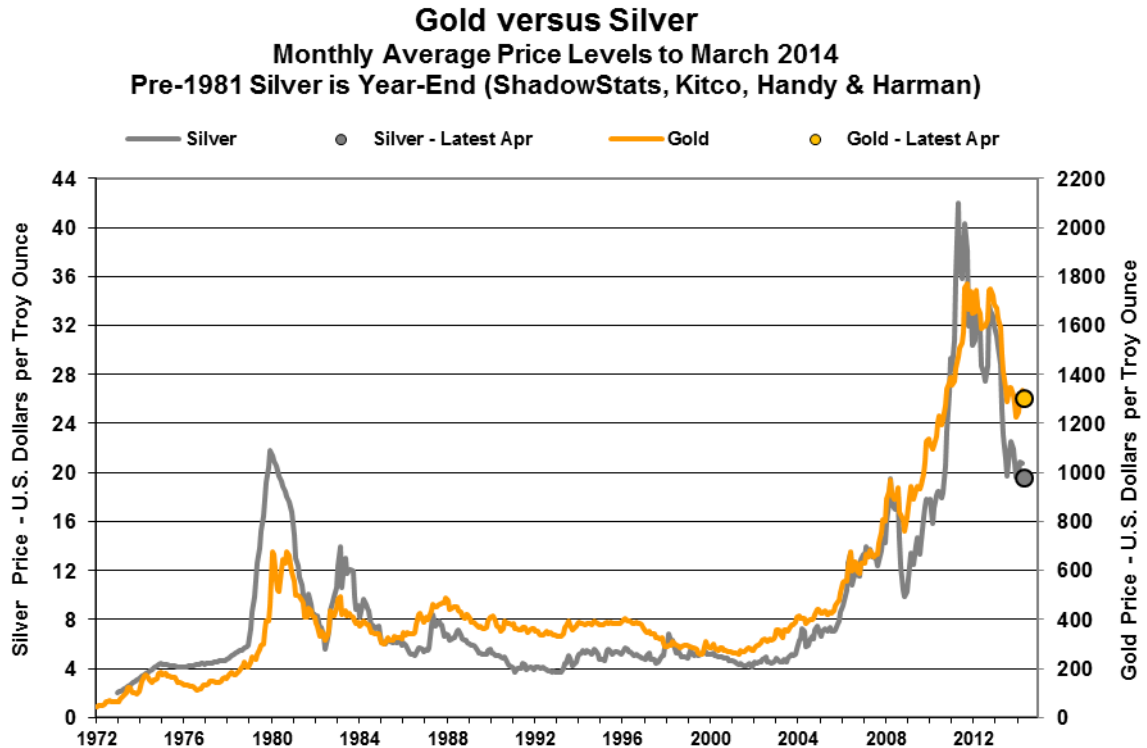
Hyperinflation Summary Outlook. The hyperinflation and economic outlook were updated fully in the last two weeks, with the publication of [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), on April 2nd, and publication of [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), on April 8th. Consistent with those *Special Commentaries* and any interim economic reporting, a revised summary outlook is planned shortly for this section.

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. Volatile markets have continued, amidst mounting global political tensions and a rapidly weakening U.S. economy. Related market fears also center on worsening fiscal and monetary instabilities, and deteriorating domestic political circumstances. All these issues should be poison to the markets. The U.S. dollar remains a good bet to be an early casualty; precious metals and oil prices should benefit.

As discussed in the two installments of the *2014 Hyperinflation Report*, linked above, the underlying fundamentals could not be much weaker for the U.S. dollar, and they could not be stronger for gold and silver, irrespective of unusual price volatility in the last year. More-recent oil price volatility has reflected shifting global circumstances, but oil prices also face significant, further upside pressure as the U.S. dollar comes under heavier selling pressure.

The “latest April” points in the following graphs reflect approximate conditions as of mid-afternoon New York time, April 15th.





REPORTING DETAIL

CONSUMER PRICE INDEX—CPI (March 2014)

March Headline Inflation Pummeled Again by Warped Seasonal Adjustments of Energy Inflation. Where instabilities seen in last year's month-to-month headline inflation numbers were due largely to poor-quality seasonal adjustments (see [Commentary No. 602](#)), those problems have continued into 2014.

For the third straight month, energy inflation was suppressed sharply by seasonal adjustments that had been warped by non-seasonal, irregular and highly volatile swings in oil prices since the 2008-panic. Oil price volatility generally has been tied much more to the movement in the U.S. dollar and to global political developments, and not so much to regular seasonal demand factors.

Primarily as a result of these seasonal distortions in energy inflation, CPI-U in both January and February 2014 was up by 0.1% adjusted, but up by 0.4% before seasonal adjustments. For March, headline CPI-U was up by 0.2% adjusted, but up by 0.6% unadjusted.

When headline inflation gets understated due to bad seasonals, there is a period of catch-up that follows within the year. The current period is one of headline CPI-U inflation understatement, and that should flip to the other side by mid-year.

Minor monthly headline variations aside, going forward, and as discussed in [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), risks of a massive flight from the U.S. dollar, favor resulting upside energy inflation driving headline consumer inflation much higher. The nascent dollar problems could accelerate at any time, with little warning. Renewed financial-market turmoil surrounding deteriorating global and domestic political, fiscal and monetary instabilities, and rapidly worsening economic activity, all should pummel the U.S. dollar. Ongoing economic and financial-system-liquidity crises still threaten systemic instabilities that, as with their 2008 Panic precursors, cannot be contained without further, official actions, which have serious inflation consequences.

As a separate issue, inflation—generally perceived by the public from the standpoint of personal income or investment use—continues to run well above any of the government’s rigged price measures. Related methodological changes to the CPI series in recent decades were designed to understate the government’s reporting of consumer inflation, as discussed in the [Public Comment on Inflation Measurement](#).

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.*

CPI-U. The Bureau of Labor Statistics (BLS) reported this morning, April 15th, that the headline, seasonally-adjusted CPI-U for March 2014 rose month-to-month by 0.2% (0.20% at the second decimal point). On a not-seasonally-adjusted basis, the March CPI-U rose by 0.64%. The February CPI-U had increased by 0.1% (0.10% at the second decimal point), and was up by 0.37% on a not-seasonally-adjusted basis. For the third month, extreme seasonal adjustments have reversed unadjusted energy inflation, sharply suppressing the headline CPI-U monthly inflation rate.

Monthly Gasoline Prices. The BLS used a gain of 5.1% in not-seasonally-adjusted gasoline prices, reasonably close to the 5.0% increase indicated by the more-comprehensive, industry-based surveying of the Department of Energy. With heavily-negative seasonal adjustments, the unadjusted gain in gasoline prices was turned into a seasonally-adjusted 1.7% monthly contraction. As in February, seasonal adjustments were slightly positive for monthly food inflation, but they were negative for the headline “core” inflation, net of food and energy.

Major CPI Groups. Encompassed by the headline March 2014 CPI-U gain of 0.2% (up by 0.6% unadjusted), aggregate energy inflation in March was down by an adjusted 0.1% (up by an unadjusted 3.5%) for the month. In the other major CPI sectors, adjusted food inflation was up by 0.4% for the month (up by 0.3% unadjusted), while “core” inflation rose by an adjusted 0.2% (up by 0.4% unadjusted).

Year-to-Year CPI-U. Not seasonally adjusted, March 2014 year-to-year inflation for the CPI-U was a gain of 1.51%, versus 1.13% in February.

Year-to-year, CPI-U inflation would increase or decrease in next month’s April 2014 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted 0.16% decline in the monthly inflation reported for April 2013. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for April 2014, the difference in April’s headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the March 2014 annual inflation rate of 1.51%.

Core CPI-U. Seasonally-adjusted March 2014 “core” CPI-U inflation (net of food and energy inflation) rose by 0.20% (0.35% unadjusted) versus an adjusted 0.12% (0.30% unadjusted) in February. Year-to-year “core” inflation was 1.66% in March, versus 1.57% in February.

CPI-W. The March 2014 headline, seasonally-adjusted CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, rose by 0.19% (up by 0.73% unadjusted), versus an adjusted 0.05% gain in February (up by 0.36% unadjusted). Unadjusted, March 2014 year-to-year CPI-W inflation jumped to 1.41%, from 0.98% in February.

Chained-CPI-U. Initial reporting of unadjusted year-to-year inflation for the March 2014 C-CPI-U was 1.36%, up from 0.97% in February.

[The balance of the C-CPI-U discussion is unchanged from the prior Commentary covering the CPI.]

The recent, two-year budget deficit agreement (see [Commentary No. 581](#)) cut cost-of-living adjustments (COLA) for certain military retirees by one-percent. The Congressional negotiators did not use the Chained-CPI as had been threatened otherwise for Social Security, etc., where the idea had been that the chained series would cut COLAs by about one-percent on an annual basis, versus existing calculations. The approach taken is more open about what is being done, as opposed to the prior subterfuge of trying to pass off a fully-substitution-based CPI as a legitimate COLA measure.

The Chained-CPI-U currently is not designed as a benchmark cost-of-living indicator, with the series subject to revisions for two years, before the inflation-rate reduction is realized fully. Despite White House and Congressional considerations of making the chained index the new cost-of-living-adjustment (COLA) measure for programs such as Social Security, the system cannot be made workable as a concept for using a substitution-based CPI measure as a COLA, without the new index becoming even more of a sham than it already is. For further detail, see the [Public Commentary on Inflation Measurement and Chained-CPI](#), and the C-CPI material posted on the BLS site, apparently in anticipation possible political uses for the measure: [Chained CPI](#).

Alternate Consumer Inflation Measures. Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—annual inflation was roughly 5.1% in March 2014, up from 4.7% in February. The ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980, rose to about 9.2% (9.20% for those using the second decimal point) in March, versus 8.8% in February 2014.

[The balance of the text in this Alternate Consumer Inflation Measures sub-section is unchanged from the prior CPI Commentary.]

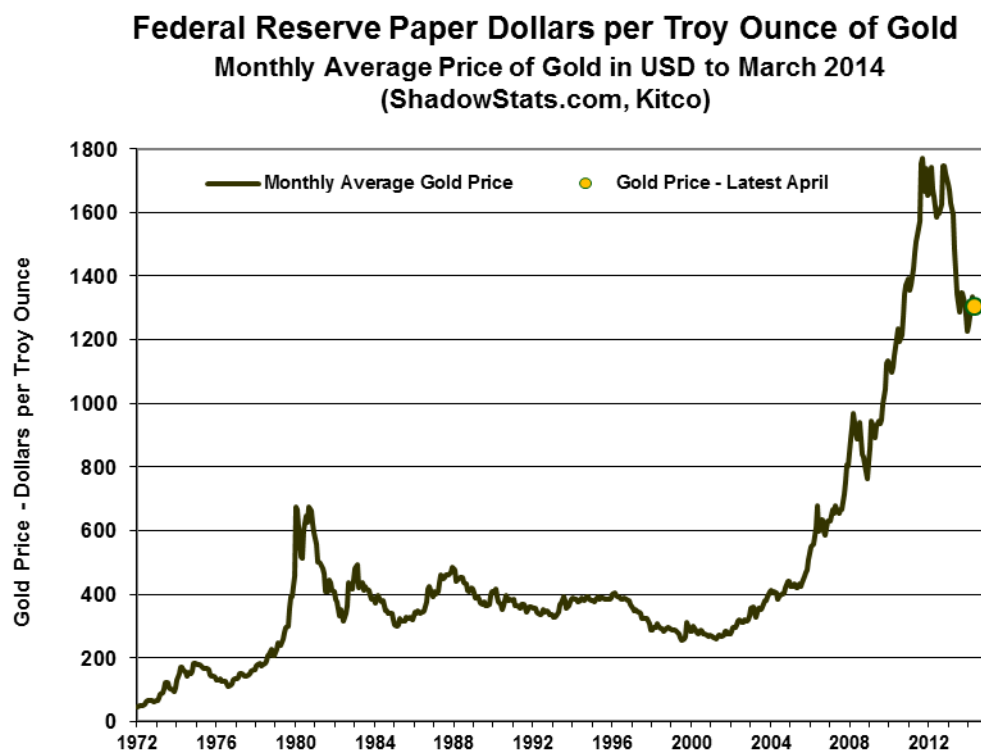
Note: The ShadowStats-Alternate Consumer Inflation Measure largely has been reverse-engineered from the BLS's CPI-U-RS series, which provides an official estimate of historical inflation, assuming that all current methodologies were in place going back in time. The ShadowStats estimates effectively are adjusted 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 what most 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 [Public Commentary on Inflation Measurement and Chained-CPI](#) for further details.)

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 \$2,582 per troy ounce, based on March 2014 CPI-U-adjusted dollars, and \$10,946 per troy ounce, based on March 2014 ShadowStats-Alternate-CPI (1980-Base) 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), although approached in 2011, still has not been hit since 1980, including in terms of inflation-adjusted dollars. Based on March 2014 CPI-U inflation, the 1980 silver-price peak would be \$150 per troy ounce and would be \$637 per troy ounce in terms of March 2014 ShadowStats-Alternate-CPI (1980-Base) adjusted dollars (again, all series not seasonally adjusted).

As shown in Table 1, on page 31 of [2014 Hyperinflation Report—The End Game Begins – First Installment Revised](#), 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 come close to fully compensating for the loss of purchasing power of the dollar based on the ShadowStats-Alternate Consumer Price Measure (1980-Methodologies Base).



Real (Inflation-Adjusted) Retail Sales—March 2014. Deflated by the CPI-U, first-quarter 2014 real retail sales fell at an annualized pace of 1.6% versus fourth-quarter 2013 activity. In turn, fourth-quarter 2013 real sales had gained at an annualized pace of 1.8% versus third-quarter activity. A first-quarter real retail sales contraction also will be seen with sales deflated by the personal consumption expenditures (PCE) deflator used in the GDP. In conjunction with the recently reported widening of the trade deficit, the contracting real retail sales activity should take a meaningful bite out of first-quarter GDP growth, but there will be more to come, as will be discussed in tomorrow's (April 16th) *Commentary No. 621*.

Separately, the monthly increase in March retail sales should revise lower, or be countered partially by a monthly contraction in April's reporting, to the extent that March activity reflected any catch-up from bad weather in January and February. As reported, though, the series still clearly continued to signal pending recession as of the March reporting. Inflation-adjusted (based on the CPI-U) year-to-year change in retail sales since World War II, shown in the fourth graph following, generally has signaled a pending recession whenever growth has fallen below 2.0%. Annual growth jumped to 2.2% in March, versus 0.6% in February and 0.3% in January 2014, having generated the strongest recession signal since the formal onset of the 2007 recession.

As covered in [Commentary No. 619](#), the nominal monthly gain of 1.14% in headline March 2014 retail sales, a revised February gain of 0.73% (previously 0.27%), and a revised January 2014 decline of 0.68% (previously down by 0.64%, initially down by 0.41%), all were before accounting for inflation.

Based on today's reporting of a 0.20% headline gain in the March 2014 CPI-U, in the context of prior February and January CPI-U reporting, seasonally-adjusted real (inflation-adjusted) monthly retail sales rose by 0.93% in March, following a revised 0.63% (previously 0.17%) gain in February, and a revised 0.82% (previously 0.78%, initially 0.55%) plunge in January 2014.

Year-to-year change in March 2014 real retail sales was a 2.21% gain, versus a revised 0.65% (previously 0.37%) gain in February, and versus a revised 0.34% (previously 0.38%) gain in January, as shown in the second and fourth graphs following. In normal economic times, annual real growth falling below 2.0% would signal a pending recession. Again, that signal has been given.

In the current circumstance, the signal likely will serve as an indicator of a renewed downturn in broad economic activity, if not an outright contraction in economic activity in the current quarter. With first-quarter 2014 in place, first-quarter real retail sales showed an annualized quarterly contraction of 1.60%, following a 1.78% annualized gain in fourth-quarter 2013.

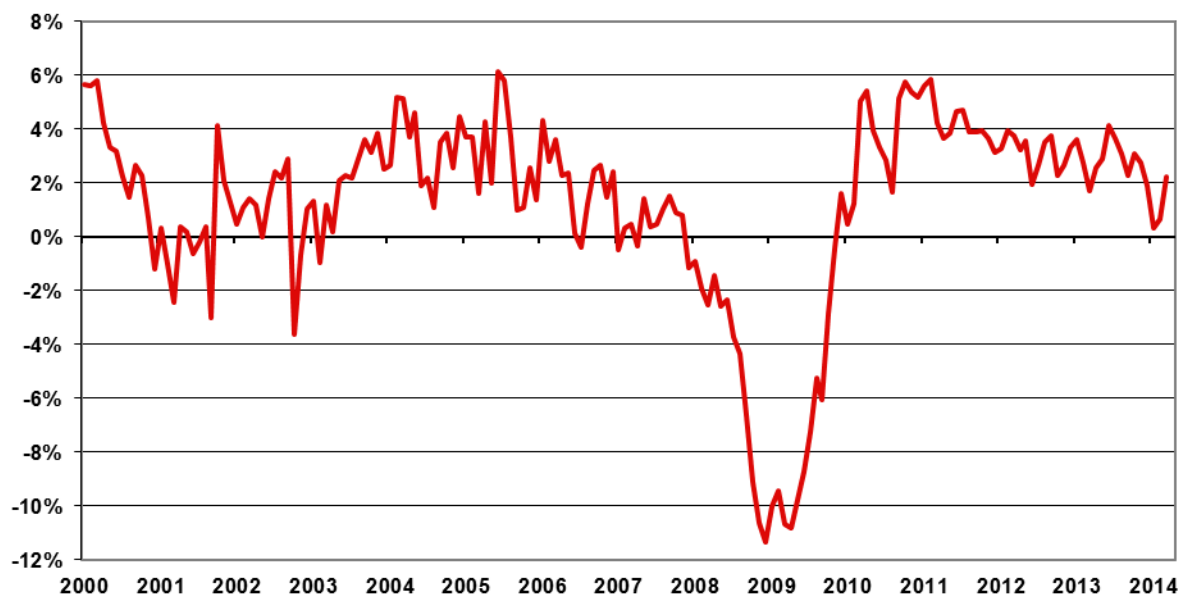
Real Retail Sales Graphs. The first of the four graphs following shows the level of real retail sales activity (deflated by the CPI-U) since 2000; the second graph shows year-to-year percent change for the same period. The level of monthly activity turned down sharply in December 2013 and January 2014 with a bounce-back in February and March. Year-to-year activity, which had plunged to a near-standstill in January and February, also bounced back some in March. The third and fourth graphs show the level of and annual growth in real retail sales (and its predecessor series) in full post-World War II detail.

The gross domestic product (GDP) expanded beyond pre-recession levels twelve quarters ago, starting in second-quarter 2011, and it has kept rising, well beyond the reported activity of any other series, including real retail sales and industrial production. There is no other major economic series showing the GDP's pattern of both official, full recovery and extensive new growth. While real retail sales tend to lead the GDP, the "recovery" in retail reporting lagged the purported GDP recovery by two years. In like manner, the industrial production measure—a coincident GDP indicator—broke above its pre-recession high in November 2013 reporting, but has fluttered since, still holding at an all-time high as of February 2014 reporting.

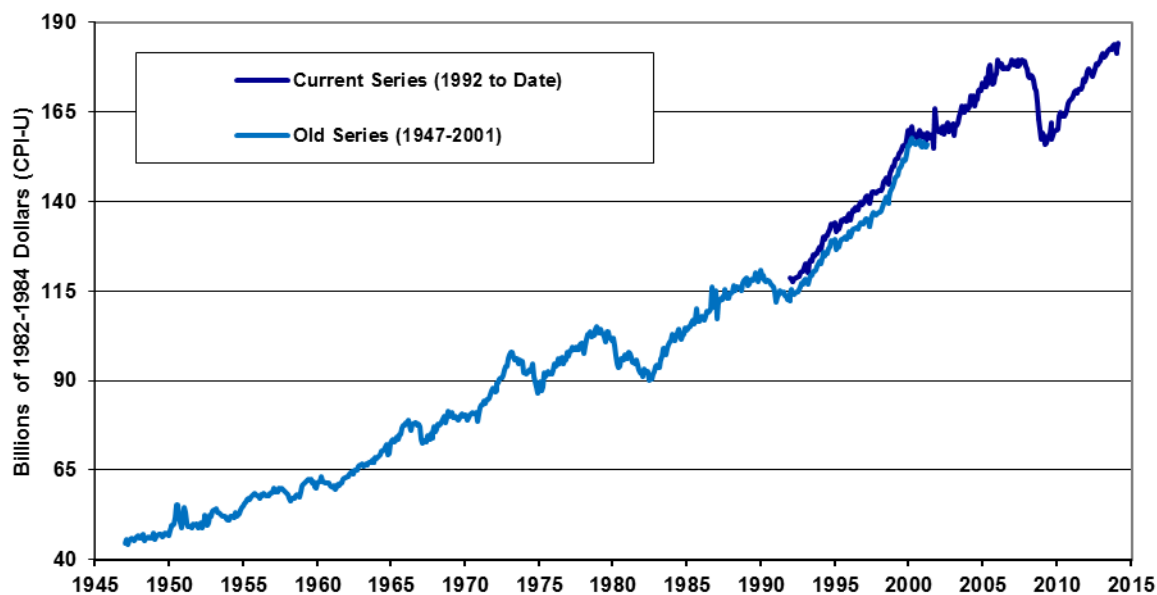
Real Retail Sales (Deflated by CPI-U)
To Mar 2014, Seasonally-Adj. (ShadowStats, Census, BLS)



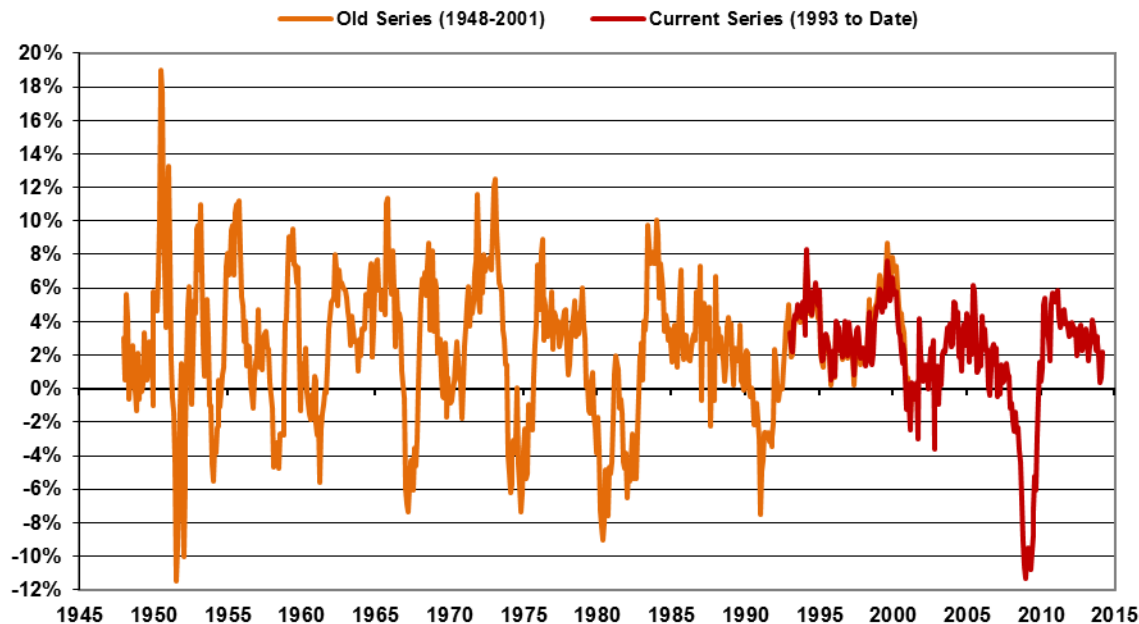
Real Retail Sales Year-to-Year % Change
To Mar 2014, Seasonally-Adj. (ShadowStats, Census, BLS)



Real Retail Sales (Deflated by CPI-U)
To Mar 2014, Seasonally-Adj. (ShadowStats, St. Louis Fed)



Real Retail Sales Yr/Yr Percent Change
To Mar 2014, Seasonally-Adj. (ShadowStats, St. Louis Fed)



The apparent “recovery” in the real retail sales series and industrial production (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 *Chapter 9* of [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#), deflation by too-low an inflation number (such as the CPI-U) results in the deflated series overstating inflation-adjusted economic growth.

As shown in the latest “corrected” real retail sales graph, in the *Opening Comments*, with the deflation rates corrected for understated inflation, the recent pattern of real sales activity has turned increasingly negative. The corrected graph shows that the post-2009 period of protracted stagnation ended, and a period of renewed 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.

Also discussed in [Commentary No. 619](#), 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 never was a broad economic recovery, and there is no recovery underway, just general bottom-bouncing that is turning down anew.

As official consumer inflation continues its upturn in April and the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by continued real earnings difficulties, discussed in the next section—these data should continue to trend meaningfully lower, in what rapidly should gain recognition as a formal new or double-dip recession.

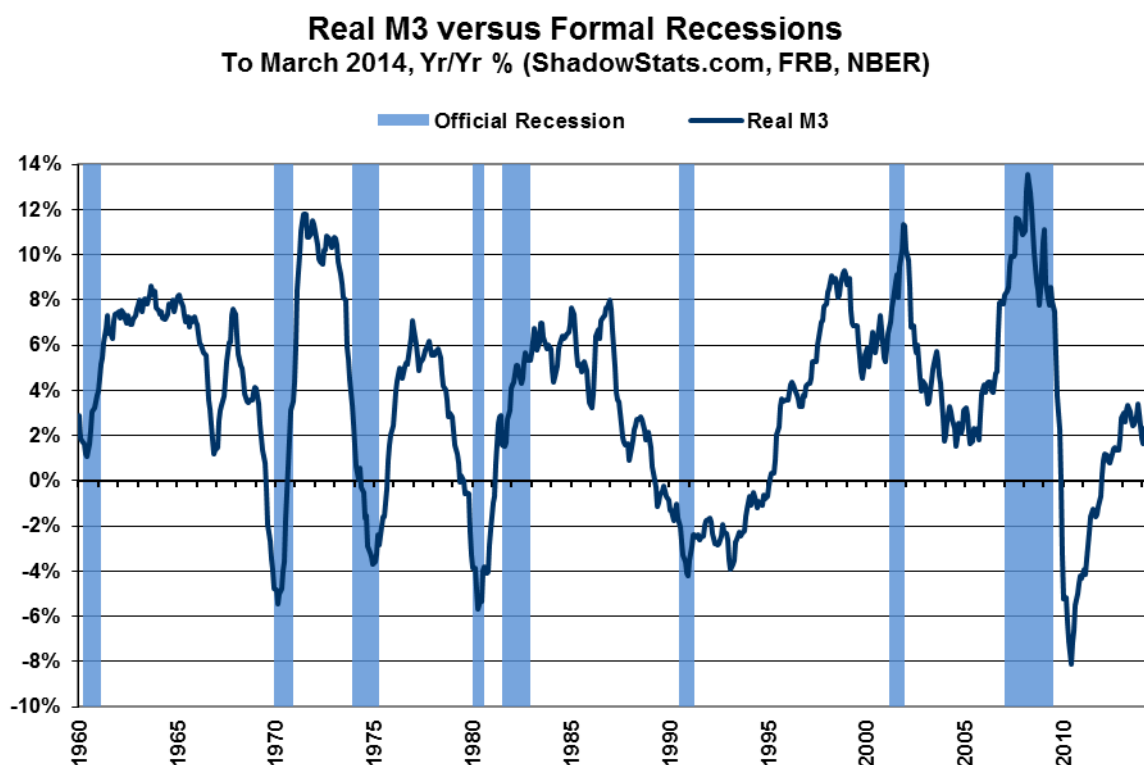
Real (Inflation-Adjusted) Average Weekly Earnings—March 2014. Coincident with today’s March 2014 CPI-W release, the BLS also published real average weekly earnings for March. In the production and nonsupervisory employees series—the only series for which there is a meaningful history—headline real average weekly earnings (deflated by the CPI-W) rose by 0.61%, reflecting a 0.34% monthly decline in average hourly earnings being more than offset by a 0.90% increase in average hours worked. That followed a revised decline of 0.16% (previously down by 0.21%) in February average weekly earnings.

Year-to-year, March 2014 real average weekly earnings growth was 0.50%, versus a revised 0.29% (previously 0.04%) gain in February. Both the monthly and annual fluctuations in this series are irregular, but current reporting remains well within the normal bounds of volatility. Prior-period revisions usually are due to the instabilities in the BLS monthly surveys.

The regular graph of this series is in the *Opening Comments* section. As shown there, the graph plots the earnings as officially deflated by the BLS (red-line), and as adjusted for the ShadowStats-Alternate CPI Measure, 1990-Base (blue-line). When inflation-depressing methodologies of the 1990s began to kick-in, the artificially-weakened CPI-W (also used in calculating Social Security cost-of-living adjustments) helped to prop up the reported real earnings. Official real earnings today still have not recovered their inflation-adjusted levels of the early-1970s, and, at best, have been flat for the last decade. Deflated by the ShadowStats measure, real earnings have been in fairly regular decline for the last four decades, which is much closer to common experience than the pattern suggested by the CPI-W. See [Public Commentary on Inflation Measurement](#) for further detail.

Real Money Supply M3—March 2014. The signal for a double-dip or ongoing recession, based on annual contraction in the real (inflation-adjusted) broad money supply (M3), remains in place and continues, despite real annual M3 growth holding in positive territory. As shown in the accompanying

graph—based on March 2014 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for March 2014 held at 2.3%, versus a revised 2.3% (was 2.2%) in February. The steady March annual growth rate for real M3 reflected offsetting increases in nominal annual growth rate in M3 and the annual CPI-U inflation rate.



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 into 2011 and 2012, with significant new softness in recent reporting. Actual post-2009 economic activity has remained at low levels—in protracted stagnation.

A renewed downturn in official data may be underway, and that eventually could lead to official recognition of a “new” or 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 unofficially in 2006. Further discussion of this issue is found in *Chapter 8* of the [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#).

WEEK AHEAD

Much-Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead.

Although shifting to the downside, market expectations generally still appear to be overly optimistic as to the economic outlook. Expectations should continue to be hammered, though, by continuing, downside corrective revisions and continued, disappointing headline economic activity. The initial stages of that process have been seen in the recent headline reporting of most major economic series.

That corrective circumstance and underlying weak economic fundamentals remain highly suggestive of deteriorating business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend until such time as the unfolding “new” recession receives general recognition.

Stronger inflation reporting remains likely. Upside pressure on oil-related prices should reflect intensifying impact from a weakening U.S. dollar in the currency markets, and from ongoing global political instabilities. The dollar faces pummeling from continuing QE3, the ongoing U.S. fiscal-crisis debacle, a weakening U.S. economy and deteriorating U.S. and global political conditions (see [*Hyperinflation 2014—The End Game Begins \(Updated\)*](#)). Particularly in tandem with a weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected inflation.

A Note on Reporting-Quality Issues and Systemic Reporting Biases. Significant reporting-quality problems remain with most major economic series. Ongoing headline reporting issues are tied largely to systemic distortions of seasonal adjustments. The data instabilities were induced by the still-evolving economic turmoil of the last eight years, which has been without precedent in the post-World War II era of modern economic reporting. These impaired reporting methodologies provide particularly unstable headline economic results, where concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data), and they have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

PENDING RELEASES:

Residential Construction—Housing Starts (March 2014). Tomorrow, Wednesday, April 16th, the Census Bureau will publish its estimate of March 2014 housing starts. This series was distorted heavily to the upside by data-gathering and reporting issues that resulted from the government shutdown in October, and it is still suffering reporting instabilities. Despite near-perpetual market expectations for strengthening activity in housing starts, month-to-month change likely will remain in a pattern of statistical-insignificance, with ongoing stagnation and renewed downturn or downside revisions seen in

the aggregate series, as well as particularly in single-unit housing starts. As usual, this series is subject to large prior-period revisions.

In the wake of a 75% collapse in aggregate activity from 2006 through 2008, and an ensuing five-year pattern of housing starts stagnation at historically low levels, little has changed. There remains no chance of a near-term, sustainable turnaround in the housing construction market, unless there is a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and still does not appear to be in the offing.

Index of Industrial Production (March 2014). Also tomorrow, Wednesday, April 16th, the March 2014 index of industrial production will be released by the Federal Reserve Board. Net of the ongoing irregular volatility in utility output tied to seasonable or unseasonable weather, market expectations for moderate March production growth are a fair bet to be disappointed on the downside, as consumption slows and companies increasingly move to reduce excessive inventory levels. As usual, this series is subject to large prior-period revisions.
