

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

**COMMENTARY NUMBER 640**

**June Retail Sales**

**July 15, 2014**

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**Net of Inflation, Headline Real June Retail Sales Likely Contracted**

**Although Real Retail Sales Appear to Have Gained in Second Quarter;  
Contracting Second-Quarter GDP Outlook Remains Intact**

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*PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Wednesday, July 16th, covering the June producer price index (PPI) and industrial production, followed by one on July 17th covering June housing starts.*

*Best wishes to all — John Williams*

**OPENING COMMENTS AND EXECUTIVE SUMMARY**

**Second-Quarter GDP Contraction Looms.** In the context of what in aggregate was another relatively-strong headline nominal retail sales report, inflation-adjusted real retail sales should be on the plus-side for the second-quarter, following a first-quarter contraction, although they likely will be negative on a headline basis for June. The various GDP components, however, continue to suggest strongly a second consecutive quarterly contraction for the GDP, as of second-quarter 2014 reporting on July 30th.

The formal estimate of real, or inflation-adjusted, retail sales will be published on July 22nd and reviewed in *Commentary No. 643* of that date, along with an overview of the upcoming GDP benchmark revisions and first estimate of second-quarter 2014 GDP.

Today's (July 15th) brief missive concentrates on the June retail sales release.

**Retail Sales—June 2014—Net of Inflation, Headline June Sales Likely Contracted.** Not only was the 0.25% (rounded 0.2%) headline gain in monthly June 2014 retail sales statistically-insignificant, it also likely did not exceed the headline CPI-U inflation rate for the month. Accordingly, headline real (inflation-adjusted) retail sales probably contracted in June. The formal estimate of real, or inflation-adjusted, retail sales will be published in the July 22nd *Commentary No. 643*. Although, real retail sales should show a quarterly gain in second-quarter 2014, the outlook for a second consecutive quarterly GDP contraction for the second-quarter remains intact, with utilities (the ongoing counter-balance to any first-quarter “weather” effects on the consumer) and healthcare providing offsets to the headline retail gains.

Repeating the patterns of the month before, although the headline June number was below market consensus, upside revisions to the prior month brought aggregate activity up to a level that was closer to the market outlook. Net of the upside revision to the May sales level, June sales were up by 0.5% (still shy of what appears to have been a 0.6% consensus), instead of the headline gain of 0.2%.

**Reporting Instabilities and Distortions.** The usual seasonal factor distortions were at play in June reporting, where the headline data reflected concurrent seasonal adjustments. Given Census Bureau reporting procedures, the headline detail is not comparable with earlier reporting. Accordingly, current data can reflect growth shifts from earlier periods, without specifics being made available to the public.

As has been the recent pattern, the year-ago numbers for May and June 2014 were revised lower, along with the publication of the June 2014 data (also including revised detail on April and May 2014). All other seasonally-adjusted historical numbers also were revised, but only the new details for May and June 2013 were published for the earlier data. The revisions of one year ago do not reflect changes in actual sales activity, only the continuing unstable monthly revisions in the concurrent-seasonal-adjustment process (see *Reporting Detail* for further comments in this area).

**Underlying Consumer Fundamentals Remain Bleak.** As discussed, with updated graphs, in the prior [Commentary No. 639](#), during the last six-plus years of economic collapse and stagnation, activity in consumer buying of goods and services has been constrained by the intense, structural-liquidity woes besetting the consumer. Without real, or inflation-adjusted, growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply does not have the ability to sustain real growth in retail sales or in personal-consumption activity that dominates the headline change in GDP.

**Nominal (Not-Adjusted-for-Inflation) Retail Sales—June 2014.** The latest headline retail sales detail was in the context of an upside revision to May sales. Not adjusted for consumer inflation, headline June 2014 retail sales reflected a statistically-insignificant, seasonally-adjusted, headline monthly gain of 0.2%. That was an increase of 0.25% at the second decimal point, and a monthly gain of 0.51% before prior-period revisions. The June gain followed a revised, statistically-significant month-to-month gain of 0.48% (previously 0.34%) in May 2014.

Year-to-year growth in June 2014 retail sales was a statistically-significant 4.26%, versus a revised 4.60% (previously 4.26%) gain in May. The May revision reflected a downside change to the prior-year number as well as the upside revision to May 2014.

***Real (Inflation-Adjusted) Retail Sales—June 2014.*** The headline 0.25% gain in the monthly June retail sales was before accounting for inflation. Real retail sales for June (adjusted for inflation), will be reported along with the headline estimate of consumer inflation, the June 2014 CPI-U, in the July 22nd *Commentary No. 643*. June headline inflation should be on the plus-side by enough so that the headline month-to-month change in real June retail sales would be flat-to-minus.

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## HYPERINFLATION WATCH

**The Pending U.S. Dollar and Hyperinflation Crises Were Reviewed in Prior [Commentary No. 639](#).** This section will be updated fully in the July 22nd *Commentary No. 643*. See [Commentary No. 639](#) for the recent review of key elements of the outlook and [Commentary No. 637](#) for the prior summary. Nothing of substance has changed.

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## REPORTING DETAIL

### RETAIL SALES (June 2014)

**Net of Inflation Effects, Headline June Retail Sales Likely Contracted.** Not only was the 0.25% (rounded 0.2%) headline gain in monthly June 2014 retail sales statistically-insignificant, it also likely did not exceed the headline CPI-U inflation rate for the month. Accordingly, headline real (inflation-adjusted) retail sales probably contracted in June. The formal estimate of real, or inflation-adjusted, retail

sales will be published on July 22nd and reviewed in *Commentary No. 643* of that date, along with an overview of the upcoming GDP benchmark revisions and first estimate of second-quarter 2014 GDP. Although, real retail sales should show a quarterly gain in the second-quarter 2014, the outlook for a second consecutive quarterly GDP contraction for the second-quarter remains intact, with utilities (the counter-balance to first-quarter “weather” effects) and healthcare providing offsets to the headline retail gains.

Repeating the patterns of the month before, although the headline June number was below market consensus, upside revisions to the prior month brought aggregate activity up to a level that was closer to the market outlook. Net of the upside revision to the May sales level, June sales were up by 0.5% (still shy of what appears to have been a 0.6% consensus), instead of the headline gain of 0.2%.

***Reporting Instabilities and Distortions.*** The usual seasonal factor distortions were at play in June reporting, where the headline data reflected concurrent seasonal adjustments. Given Census Bureau reporting procedures, the headline detail is not comparable with earlier reporting. Accordingly, current data can reflect growth shifts from earlier periods, without specifics being made available to the public.

As has been the recent pattern, the year-ago numbers for May and June 2014 were revised lower, along with the publication of the June 2014 data (also including revised detail on April and May 2014). All other seasonally-adjusted historical numbers also were revised, but only the new details for May and June 2013 were published for the earlier data. The revisions of one year ago do not reflect changes in actual sales activity, only the continuing unstable monthly revisions in the concurrent-seasonal-adjustment process.

Concurrent seasonal adjustments are recalculated every month, but not reported on a consistent, historical basis. This allows for invisible shifts in seasonally-adjusted current activity that are not consistent with published historical reporting. Further, the stability of the seasonal-adjustment process (particularly the concurrent-seasonal-adjustment process used with retail sales) and sampling methods has been disrupted severely by the unprecedented depth and length of the current economic downturn in the post-World War II era (the period of modern economic reporting).

Retail sales reporting suffers the same inconsistency issues that are seen with other series, such as payroll employment, the unemployment rate, and durable goods orders. The highly variable and unstable seasonal factors here continued to cloud relative activity in the April 2014-to-June 2014, and in the May 2013-to-June 2013 periods, five months that are published on a non-comparable basis with all the other historical data. Consistent data are calculated and are available within the Census Bureau, but the Bureau chooses not to publish them.

***Underlying Consumer Fundamentals Remain Bleak.*** As discussed in the prior [\*Commentary No. 639\*](#), during the last six-plus years of economic collapse and stagnation, activity in consumer buying of goods and services has been constrained by the intense, structural-liquidity woes besetting the consumer. Without real, or inflation-adjusted, growth in income, and without the ability or willingness to take on meaningful new debt, the consumer simply does not have the ability to sustain real growth in retail sales or in personal-consumption activity that dominates the headline change in GDP.

***Nominal (Not-Adjusted-for-Inflation) Retail Sales—June 2014.*** The latest headline retail sales detail was in the context of an upside revision to May sales. Not adjusted for consumer inflation, today’s (July

15th) report on June 2014 retail sales—issued by the Census Bureau—indicated a statistically-insignificant, seasonally-adjusted, headline monthly gain of 0.2%. That was an increase of 0.25% at the second decimal point, +/- 0.58% (all confidence intervals are at the 95% level), and a monthly gain of 0.51% before prior-period revisions. The June gain followed a revised, statistically-significant month-to-month gain of 0.48% (previously 0.34%) +/- 0.23% for May 2014.

Year-to-year growth in June 2014 retail sales was a statistically-significant 4.26% +/- 0.82%, versus a revised 4.60% (previously 4.26%) gain in May. The May revision reflected a downside change to the prior-year number as well as the upside revision to May 2014.

***June Core Retail Sales—About the Same as the Headline Number.*** In an environment of rising food prices, and with an unadjusted 0.43% gain in monthly gasoline prices, seasonally-adjusted monthly grocery-store sales rose by 0.13% in June, with gasoline-station sales rising by 0.34%. Under normal conditions, the bulk of non-seasonal variability in food and gasoline sales is in pricing, instead of demand. “Core” retail sales—consistent with the Federal Reserve’s preference for ignoring food and energy prices when “core” inflation is lower than full inflation—are estimated using two approaches:

Version I: June 2014 versus May 2014 seasonally-adjusted retail sales series—net of total grocery store and gasoline station revenues—showed a gain of 0.25% (rounds to 0.3%), versus the official gain of 0.25% (rounds to 0.2%).

Version II: June 2014 versus May 2014 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—showed a gain of 0.19%, versus the official gain of 0.25% (rounds to 0.2%).

***Real (Inflation-Adjusted) Retail Sales—June 2014.*** The headline 0.25% gain in the monthly June retail sales was before accounting for inflation. Real retail sales for June (adjusted for inflation), will be reported along with the headline estimate of consumer inflation, the June 2014 CPI-U, in the July 22nd *Commentary No. 643*. June headline inflation should be on the plus-side by enough so that the headline month-to-month change in real June retail sales would be flat-to-minus.

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## WEEK AHEAD

**Much-Weaker-Economic and Stronger-Inflation Reporting Likely in the Months and Year Ahead.** Although shifting to the downside, amidst fluctuations, market expectations generally still are overly

optimistic as to the economic outlook. Expectations should continue to be hammered, though, by ongoing downside corrective revisions and an accelerating pace of downturn in headline economic activity. The initial stages of that process have been seen in the recent headline reporting of many major economic series (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#)), including the sharp pace of economic decline seen in real first-quarter 2014 GDP, which is the first contemporary reporting of a quarterly GDP contraction since the formal end of the 2007 recession, in mid-2009.

Weakening, underlying economic fundamentals indicate still further deterioration in business activity. Accordingly, weaker-than-consensus economic reporting should become the general trend until such time as the unfolding “new” recession receives general recognition, which likely would follow the reporting of a headline contraction in second-quarter 2014 GDP real growth.

Stronger inflation reporting also remains likely, as has been seen in recent reporting. Upside pressure on oil-related prices should reflect intensifying impact from global political instabilities and a weakening U.S. dollar in the currency markets. Food inflation has been picking up as well. The dollar faces pummeling from the weakening economy, continuing QE3, the ongoing U.S. fiscal-crisis debacle, and deteriorating U.S. and global political conditions (see [Hyperinflation 2014—The End Game Begins \(Updated\) – First Installment](#)). 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, when concurrent seasonal adjustments are used (as with retail sales, durable goods orders, employment and unemployment data). These issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

## ***PENDING RELEASES:***

**Index of Industrial Production (June 2014).** Tomorrow, Wednesday, July 16th, the June 2014 index of industrial production will be released by the Federal Reserve Board. Market expectations appear to be for a small headline gain of 0.2% to 0.3%, but fundamental weakness and downside surprises to market expectations are likely, as companies continue reducing excessive inventory levels, in line with softening consumption. As usual, this series is subject to large prior-period revisions, which should tend to be to the downside.

**Producer Price Index—PPI (June 2014).** The June 2014 PPI also is scheduled for release tomorrow, Wednesday, July 16th, by the Bureau of Labor Statistics (BLS). A month-to-month increase is likely, reflecting a broad spectrum of goods-related inflation, including energy, food and “core” inflation components (ex-food and energy). Depending on the oil contract followed, not-seasonally-adjusted monthly-average oil prices were up by 1.3% to 3.5% for the month of June, along with a 0.4% unadjusted

monthly increase in average retail gasoline prices. PPI seasonal adjustments for energy costs should be strongly to the plus-side in June.

The wildcard in this revamped PPI remains the newly-added services sector, which largely is unpredictable, volatile and of limited meaning due to its inflation measurements having minimal relationship to real-world activity. Although the new series is less dependent on the increasingly “antiquated” concepts of oil, food and “core” (ex-food and energy) inflation, services costs should see continuing inflationary pressures—and shrinking profit margins—from rising prices in the “hard” economy. Accordingly, the aggregate headline June PPI inflation most likely will show at least a minimal headline monthly increase.

**Residential Construction—Housing Starts (June 2014).** On Thursday, July 17th, the Census Bureau will publish its estimate of June 2014 housing starts. Despite extreme monthly volatility seen regularly in the reporting of this series, and despite near-perpetual wishful upside market expectations for housing starts—although June expectations appear to be for close to a headline “unchanged” reading—month-to-month change likely will continue a pattern of statistical-insignificance, with ongoing stagnation and renewed downturn or downside revisions. 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. Again, as was discussed in the updated section on *Consumer Liquidity Conditions*, there remains no chance of a near-term, sustainable turnaround in the housing market, unless there is a fundamental upturn in consumer and banking-liquidity conditions. That has not happened and does not appear to be in the offing.

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