

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

**COMMENTARY NUMBER 676**  
**October CPI, Real Retail Sales and Earnings, Existing-Home Sales**  
**November 20, 2014**

---

**October Annual Inflation: 1.7% (CPI-U), 1.5% (CPI-W), 9.4% (ShadowStats)**

**Inflation Held at 1.7% for Third Month,  
Despite Tumbling Oil Prices That Reduced CPI-U by 0.5%**

**Annual Real Retail Sales Growth Fell Back to Recession Level,  
Amidst Suggestions of Much-Slower Fourth-Quarter Activity**

**Third-Quarter GDP Headline Growth of 3.5% Should Revise to Below 2.5%;  
Fourth-Quarter GDP Activity Fair Bet for Outright Contraction**

**Existing-Home Sales Gained 1.5% for the Month, 2.5% Year-to-Year,  
But Fell 3.7% in the Trailing 12 Months of Activity**

---

*PLEASE NOTE: The next Commentary is planned for Tuesday, November 25th, covering the first revision to third-quarter 2014 GDP, followed by one on November 26th, covering October new orders for durable goods and new-home sales.*

*Best wishes to all — John Williams*

## OPENING COMMENTS AND EXECUTIVE SUMMARY

**Double- or Triple-Dip Recession Already in Play.** The Bureau of Economic Analysis (BEA) will publish its second estimate of, first revision to, third-quarter 2014 GDP next Tuesday, November 25th (see *Week Ahead* section). Following an extremely-overstated, annualized quarterly real headline growth rate of 4.6% for second-quarter GDP, the BEA's "advance" headline reporting of a statistically-insignificant 3.5% annualized real quarterly growth rate also was well beyond the bounds of reason, in this most worthless of major economic series.

**Downside Revisions for Third-Quarter GDP.** The early-consensus (Bloomberg) is that the first revision (November 25th) will take the headline 3.5% third-quarter GDP growth rate down to about 3.3%. For reasons discussed below, though, more likely is that the first revision will take the headline growth down to 2.5% or below, with the second revision (December 23rd) taking growth down to below 2.0%.

**Much Slower Growth or Contraction for Fourth-Quarter GDP.** Further, do not be shocked if the "advance" estimate of fourth-quarter 2014 GDP, due for release on January 30th, takes headline GDP growth into negative territory for the second time in 2014. First-quarter 2014 still reflects a headline contraction of 2.1% (-2.1%), even subsequent to the July 2014 GDP-benchmark revisions.

Such a fourth-quarter GDP contraction likely would be in a form and manner suggestive of a double- or triple-dip recession that has been there all along, awaiting the 2015 round of benchmark revisions for full definition. Such also would be running parallel to what has happened with some major U.S. trading partners, countries that otherwise have tended to be a little more forthright in their economic reporting (see hedonic quality adjustment history in [Public Commentary on Inflation Measurement](#)). See also [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#) and [Commentary No. 670](#) for related general background.

**Troubled Reporting Developments of the Last Month or So.** Since the "advance" estimate of third-quarter GDP on October 30th, better numbers have become available. Reporting and accompanying revisions for the September 2014 trade deficit and construction spending ([Commentary No. 671](#)), October industrial production and related inventory implications ([Commentary No. 674](#)), the mid-term election results ([Commentary No. 672](#)), and even an earlier stock-market indication ([Commentary No. 668](#)), all have indicated meaningful, downside revisions pending to third-quarter GDP.

The October industrial reporting, the election detail, the stock market issues, today's (November 20th) detail on October real retail sales, and yesterday's reporting on October housing starts ([Commentary No. 675](#)) all help to make the case for, or are suggestive of, a sharp slowing or contraction in fourth-quarter 2014 GDP. Reporting in the month ahead largely should lock-in that detail, rattling the markets at the same time.

**Balance of Today's Missive.** Beyond some assessments of pending GDP revisions and reporting, today's missive concentrates on the October 2014 Consumer Price Index (CPI), related measures of Real Retail Sales and Real Earnings, and October Existing-Home Sales. The *Hyperinflation Watch* includes the gold graphs and related commentary that usually accompany the CPI reporting. The *Hyperinflation Outlook Summary* is included, but it has not been revised since its recent update.

**Consumer Price Index (CPI)—October 2014—Annual CPI-U Inflation Held at 1.7% for Third Month, Despite Tumbling Oil Prices.** Selling pressure on oil has continued—largely unabated since June 2014—tied to what apparently are U.S.-orchestrated efforts to place Russia under increased financial stress. Perhaps not so coincidentally, the effect here also was to reduce gasoline prices before the midterm election. When the U.S. dollar comes under massive selling pressure, however, the much-reduced prices for petroleum and related products should prove to be particularly ephemeral.

With oil prices having fallen 30% to 35% to date, and domestic retail gasoline prices down about 26% to date, the unadjusted October energy component of the CPI-U had dropped by 9.7% from June, with the seasonally-adjusted energy component down by 5.4% in the same period. In terms of unadjusted gasoline prices since June, the October CPI-U component had dropped by 13.7%, down by 8.3% on a seasonally-adjusted basis, which is worth an added 0.4% seasonally-adjusted CPI-U headline inflation, in terms of gasoline, by itself, and an extra 0.5% in terms of the total energy contribution.

Reflecting energy-price pressures, the year-to-year or annual (unadjusted) CPI-U inflation rate in August 2014 slowed to 1.7%, from 2.0% in July, and from a near-term peak in annual inflation of 2.1% in May and June. The headline annual CPI-U inflation rate has held at 1.7%, however, in September and October—despite downside consensus expectations—due generally to higher food and "core" inflation (ex-food and energy).

**CPI-U.** The headline, seasonally-adjusted CPI-U for October 2014 was unchanged month-to-month at the second decimal point, otherwise up by 0.004% at the third decimal point, following a month-to-month gain of 0.1% (0.09% at the second decimal point) in September. On a not-seasonally-adjusted basis, the October CPI-U fell by 0.25% (-0.25%) month-to-month, following an unadjusted monthly increase of 0.08% in September.

Not seasonally adjusted, October 2014 year-to-year inflation for the CPI-U was a gain of 1.7% (1.66% at the second decimal point), versus 1.7% (1.66% at the second decimal point) in September and 1.7% (1.70% at the second decimal point) in August.

**CPI-W.** The October 2014 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, fell by 0.08% (-0.08%) in October [fell by an unadjusted 0.40% (-0.40%)], after increasing by a headline 0.10% [up by 0.06% unadjusted] in September. Unadjusted, October 2014 year-to-year CPI-W inflation was 1.52%, versus 1.58% in September 2014.

**Chained-CPI-U.** Initial reporting of unadjusted year-to-year inflation for the October 2014 C-CPI-U was 1.46%, versus 1.50% in September. See the discussion in the *Opening Comments* of [Commentary No. 668](#) on the October 22nd BLS announcement of forthcoming changes to the calculation of consumer inflation, designed to help set-up the C-CPI-U as a new measure for a reduced-inflation, cost-of-living-adjustment (COLA) for Social Security, etc.

**Alternate Consumer Inflation Measures.** The ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—annual inflation was roughly 5.2% in October 2014, the same level as in September. The October 2014 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses

gimmicked changes to official CPI reporting methodologies back to 1980, also held at the same level as in September, at about 9.4%.

***Real (Inflation-Adjusted) Retail Sales—October 2014—Slowing Annual and Fourth-Quarter Growth.***

In nominal terms, before adjustment for inflation, headline monthly retail sales rose by a headline 0.34% in October 2014, having declined by a revised 0.26% (-0.26%) in September (see [Commentary No. 673](#)).

Based on the headline unchanged (up by 0.004% at the third decimal point) monthly inflation in the October 2014 CPI-U, and in the context of a 0.09% headline monthly increase in the September 2014 CPI-U, seasonally-adjusted real monthly retail sales rose by 0.33% in October, and fell by a revised 0.34% (-0.34%) in September.

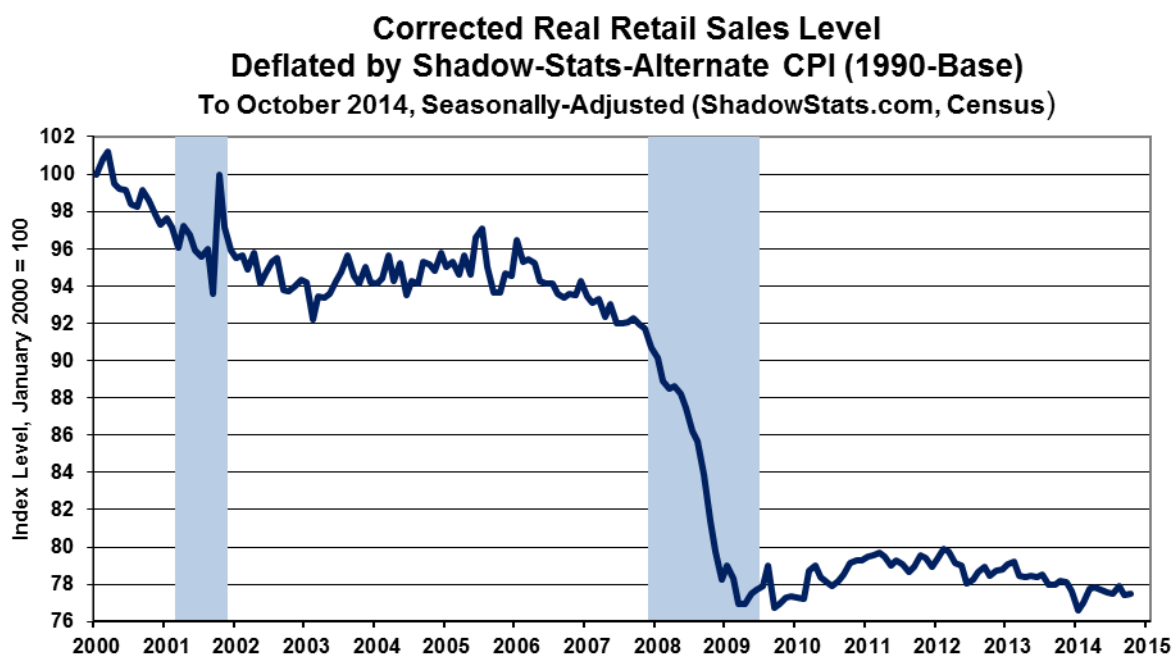
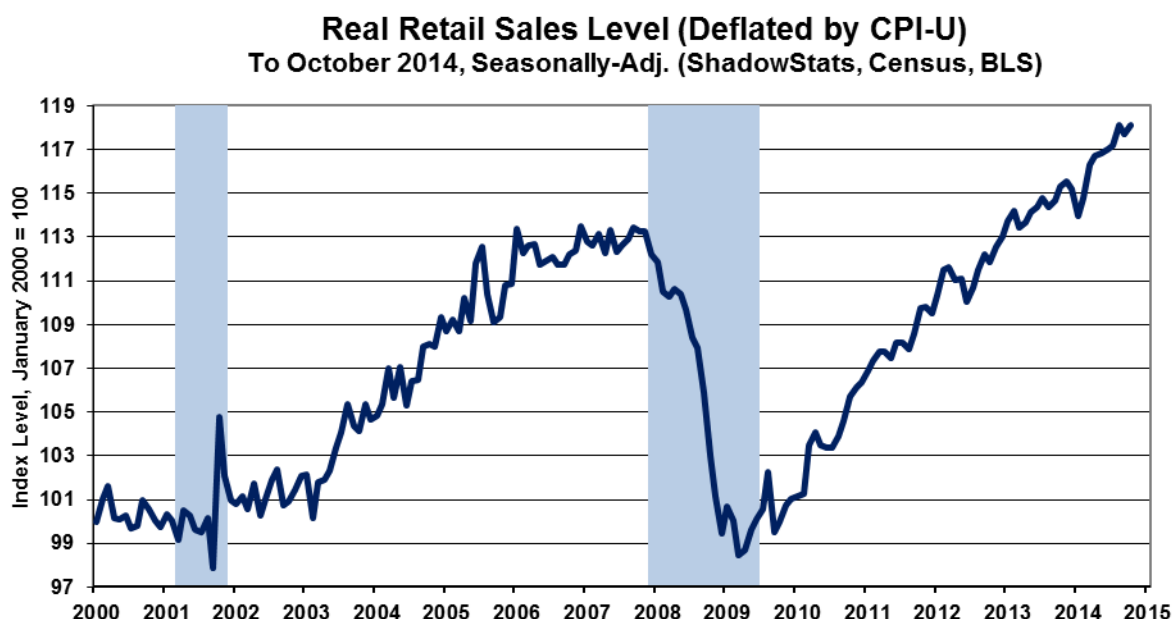
The headline October reporting, if it held for fourth-quarter 2014, would suggest annualized quarterly real growth in retail sales of 1.48%, down from 2.88% in the third-quarter and 6.49% in the second-quarter, and versus an annualized real contraction of 1.06% (-1.06%) in the first-quarter.

Year-to-year change in October 2014 real retail sales eased back to 2.45%, from 2.68% in September and 3.28% in August, as shown in the graphs of the *Reporting Detail* section. In normal economic times, annual real growth at or below 2.0% would signal an imminent recession. That signal had been given recently; it was approached meaningfully again in October and remains in play, a signal that likely will serve as an indicator of renewed downturn in broad economic activity.

***Corrected Real Retail Sales.*** The apparent “recovery” in the headline real retail sales series continues, due to the understatement of the rate of inflation used in deflating the retail sales series. Even as distorted though, the headline series appears to be stalling. 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.

Both graphs following are indexed to January 2000 = 100.0 to maintain consistency in the series of graphs related to corrected inflation-adjustment. The first graph reflects the official real retail sales series, except that it is indexed, instead of being expressed in dollars. The plotted patterns of activity and rates of growth are exactly same for the official series, whether it is indexed or in dollars, as can be seen in the comparison with the first plot of real retail sales in the *Reporting Detail* section.

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 series such as real median household income, the consumer confidence measures, unemployment and most 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 trended, so far, into 2014, allowing for the occasional and temporary upside blip.

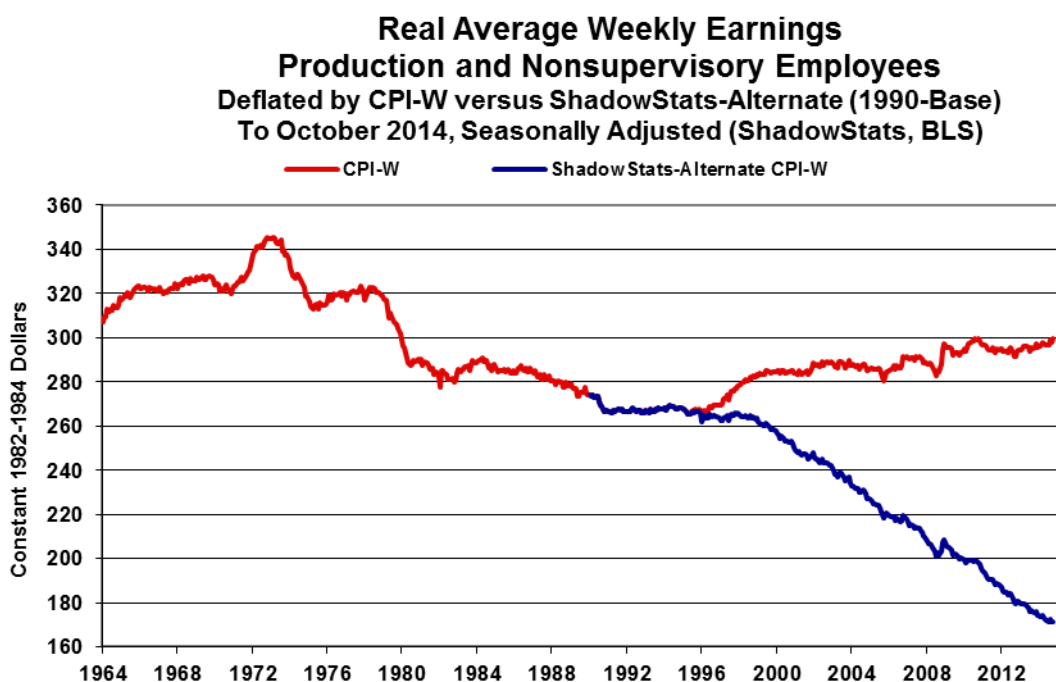


***Real (Inflation-Adjusted) Average Weekly Earnings—October 2014—Rose by 0.57% for the Month.*** Coincident with the October CPI-W release, the BLS also published real average weekly earnings for the month of October 2014. In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings (deflated by the CPI-W) rose

by 0.57%, reflecting a headline 0.08% (-0.08%) decline in the seasonally-adjusted CPI-W, and a 0.49% gain in earnings. Net of prior-period revisions, the October monthly gain in real earnings was 0.52%. The gain in October earnings was against a revised 0.44% (-0.44%) decline in September real earnings.

Year-to-year and seasonally-adjusted, October 2014 real average weekly earnings rose by 1.31%, versus a revised 0.94% annual gain in September. 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 are due to the instabilities in the BLS surveying and in the compilation of average weekly earnings.

The accompanying graph plots 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.



**Existing-Home Sales—October 2014—Trailing Twelve Months of Existing-Home Sales Were Down 3.7% from Prior Year.** With a 1.5% headline gain in monthly sales, October 2014 existing-home sales also showed the first year-to-year increase for the series in twelve months. Such ended the longest period



of consecutive monthly annual declines in the existing-home series since before the official end of the recession in June 2009.

Nonetheless, the trailing twelve months of activity through October 2014 still was down 3.7% from the year-ago trailing-twelve-month activity. The October 2014 headline annual sales pace of 5,260,000 (an average monthly pace of 438,333) also remained down by 27.7% (-27.7%) from the June 2005 pre-recession peak in activity.

***October Existing-Home Sales Gained 1.5% for the Month, 2.5% Year-to-Year.*** Headline October 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted 1.5% headline monthly gain, following a revised 2.5% sales increase in September and an unrevised 1.8% (-1.8%) monthly sales decline in August.

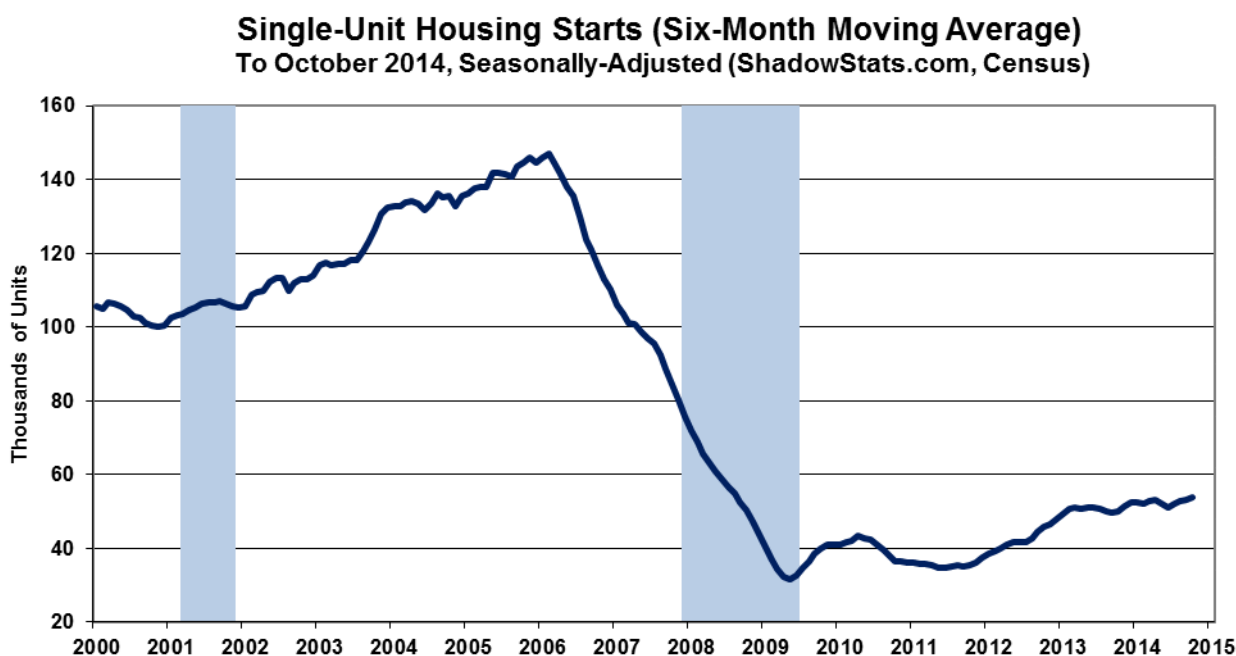
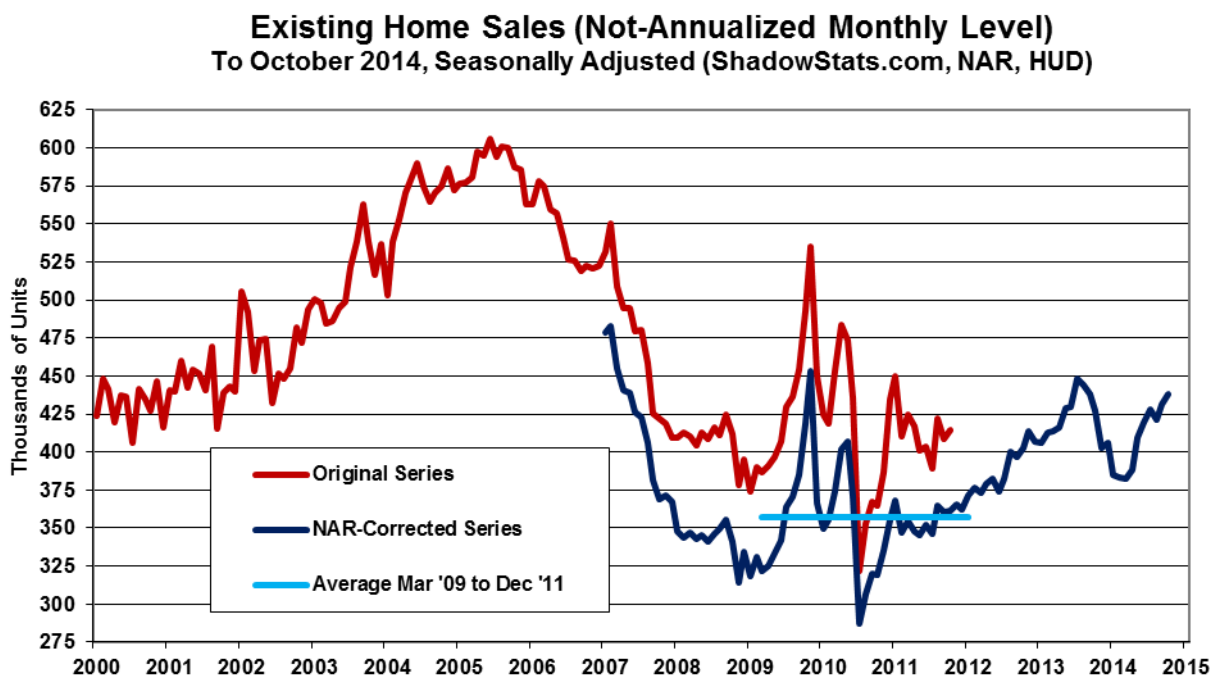
On a year-to-year basis, October 2014 annual sales increased by 2.5%, following a revised annual decline of 1.5% (-1.5%) in September, and an unrevised 5.3% (-5.3%) annual drop in August. Where the headline October number represented the first year-to-year gain in one year, the trailing twelve months of sales through October 2014 still was down by 3.7% (-3.7%) versus the trailing twelve months of sales through October 2013.

The headline October sales data were well within the regular scope of reporting for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into renewed downturn, as seen in the accompanying graph. The quality of data for this series, however, remains highly questionable.

***Distressed Sales.*** The NAR estimated that the portion of total October sales in "distress" eased back to 9% (7% foreclosures, 2% short sales) from the 10% portion of September sales that were in distress (7% foreclosures, 3% short sales). Reflecting continuing lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money into the existing-housing market, the NAR also estimated that all-cash sales in October 2014 rose to 27% of the total, up from 24% in September 2014, but down from 31% in October 2013.

***Bleak Outlook Continues, Based on Underlying Consumer Fundamentals.*** As most-recently discussed in [Commentary No. 673](#), and as indicated in the real earnings growth detailed in the previous section, there has been no fundamental improvement in underlying consumer liquidity conditions. Correspondingly, with no meaningful growth in liquidity to fuel increasing consumer activity, there is no basis here for expecting an imminent recovery in the housing market, in retail sales, in the personal consumption expenditure of the GDP, or generally in broad economic activity.

***Existing-Home Sales Graph.*** The regular monthly graph of existing-home sales activity follows. For comparison, a graph also is included of smoothed housing starts for single-unit construction (from [Commentary No. 675](#)). New-home sales detail for October 2014 will be published by the Census Bureau on November 26th (see *Week Ahead* section).



*[For further detail on the October Consumer Price Index, Real Retail Sales and Earnings, and Existing-Home Sales, see the Reporting Detail section. Various drill-down and graphics options on the headline CPI data are available to ShadowStats subscribers at our affiliate: [www.ExpliStats.com](http://www.ExpliStats.com)].*



## HYPERINFLATION WATCH

**Hyperinflation Outlook Summary.** This *Summary* is unrevised from the recently-updated version in [Commentary No. 673](#), other than for minor language changes referring back to that *Commentary*.

The long-standing hyperinflation and economic outlooks were updated 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. The outlooks also are updated in regular *Commentaries*, such as [Commentary No. 661](#), [Commentary No. 664](#), and [Commentary No. 672](#), and the *Opening Comments* of [Commentary No. 673](#) should be considered in terms of near-term, proximal triggers for massive dollar selling. The two *2014 Hyperinflation Report* installments, however, remain the primary background material for the hyperinflation and economic analyses and forecasts.

**Hyperinflation Timing Shifted to 2015.** Discussed in the *Opening Comments* of [Commentary No. 673](#), as 2014 draws to a close, the U.S. dollar has strengthened significantly in recent months, instead of being dumped in a panicked sell-off as had been predicted for 2014. Nonetheless, the outlook for the dollar panic remains in place. It could be triggered or otherwise just start, at any time, with little or no warning, and still before year-end.

From a practical standpoint, though, where a dollar-selling panic will be the likely immediate precursor to and trigger of the early stages of a hyperinflation, the outlook for the timing of the hyperinflation as detailed in the *Hyperinflation Reports* has been shifted to 2015, from 2014. I had put 80% odds in favor of the hyperinflation breaking this year, in 2014. Other than for the calendar shift, the general outlook was not changed, with the ultimate currency panic and financial crises still highly likely in the very near-term (80%), virtual certainties (95% in the not-so-distant future, *i.e.*, the year ahead).

**Primary Summary.** Current fiscal conditions show the effective long-term insolvency of the U.S. government, a circumstance that usually would be met by unfettered monetization of the national debt and obligations, leading to an eventual hyperinflation (see [Commentary No. 672](#)). The 2008 Panic and near-collapse of the financial system, and official (U.S. government and Federal Reserve) response to same, pulled the elements of the eventual hyperinflation crisis into the 2014-2015 period. The primary and basic summary of the broad outlook and the story of how and why this fiscal, financial and economic crisis has unfolded and developed over the years—particularly in the last decade—is found in the *Opening Comments* and *Overview and Executive Summary* of that *First Installment Revised* (linked above). The following sections summarize the underlying current circumstance and recent developments.

Consistent with the above *Special Commentaries*, the unfolding economic circumstance, in confluence with other fundamental issues, should place mounting and massive selling pressure on the U.S. dollar, as

well as potentially resurrect elements of the 2008-Panic. Physical gold and silver, and holding assets outside the U.S. dollar, remain the primary hedges against the pending total loss of U.S. dollar purchasing power, despite sharp recent rallies in the U.S. dollar's exchange rate and related heavy selling in the gold and silver markets.

Current relative U.S. economic strength versus major U.S. trading partners is seriously over-estimated, with a crash back to recognition of realistic domestic-economic circumstances likely to be accompanied by a crash in the U.S. dollar versus major currencies, such as the euro, yen, pound, Swiss franc, Canadian dollar and Australian dollar; related rallies in precious metals and oil; and related sell-offs in the domestic stock and bond markets. Further, a sharp deterioration in near-term domestic U.S. political stability appears to be developing and is of meaningful near-term risk for triggering heavy selling of the dollar.

***Current Economic Issues versus Underlying U.S. Dollar Fundamentals.*** U.S. economic activity is turning down anew, despite gimmicked GDP reporting. The headline contraction in first-quarter 2014 GDP was the reality; the headline second-quarter GDP boom was the aberration. The headline third-quarter growth of 3.5% appears to have been spiked by overly-optimistic trade-deficit and inventory numbers, which already face downside revisions. Such should become increasingly and painfully obvious to the financial markets in the domestic economic reporting and accompanying revisions of the weeks and months ahead, as well as early indications for an outright contraction in fourth-quarter 2014 GDP.

Recent reporting of relatively hard annual numbers from 2013 showed ongoing economic contraction, with no trend towards sustainable economic growth (see [Commentary No. 656](#)). Also, as discussed in [Commentary No. 668](#), real business activity—net of all the happy assumptions and modeling used by the Bureau of Economic Analysis in putting together the overstated third-quarter GDP growth estimate—has been flat-to-minus, with real sales of the S&P 500 showing a decline in third-quarter 2014 activity. Further, Main Street U.S.A. remains the ultimate judge of actual economic activity, and the 2014 election results and related exit polling confirmed no post-Panic economic recovery (see [Commentary No. 672](#)).

Despite short-term pre-election fluff, those basic underlying and increasingly-negative economic conditions should show with mounting frequency in various series, such as the trade deficit, retail sales, industrial production, payroll employment and inventories, providing consensus expectations with downside shocks. In turn, that should shift the popular outlook quite rapidly towards a "new recession," with negative shifts in the economic consensus negatively roiling the extraordinarily unstable financial markets.

As financial-market expectations shift towards renewed or deepening recession, that circumstance, in confluence with other fundamental issues, particularly deteriorating domestic political conditions, should place mounting and massive selling pressures on the U.S. dollar, as well as potentially resurrect elements of the 2008-Panic.

Unexpected economic weakness intensifies the known stresses on an already-impaired banking system, hence a perceived need for expanded, not reduced, quantitative easing. The highly touted "tapering" by the FOMC finally has run its course. Future, constructive Federal Reserve behavior—purportedly moving towards normal monetary conditions in the currently unfolding, perfect economic environment—is pre-conditioned by a continued flow of "happy" economic news. Suggestions that all is right again with world are nonsense. The 2008 Panic never has been resolved, and the Fed soon will find that it has no easy escape from its quantitative easing.

The economy has not recovered; the banking system is far from stable and solvent; and the Federal Reserve and the federal government still have no way out. Significant banking-system and other systemic (*i.e.* U.S. Treasury) liquidity needs will be provided, as needed, by the Fed, under the ongoing political cover of a weakening economy—a renewed, deepening contraction in business activity. The Fed has no choice. Systemic collapse is not an option for the Board of Governors. This circumstance simply does not have a happy solution.

Accordingly, some speculation already has begun to circulate as to an added round of Federal Reserve quantitative easing, QE4. That would be a major factor behind crashing the dollar and boosting the price of gold. The Fed has strung out its options for propping up the system as much as it could, with continual, negative impact on the U.S. economy. The easing to date, however, appears to have been only a prop to the increasingly unstable equity markets (see [Commentary No. 663](#)).

In the event of QE4, any resulting renewed boost to U.S. equities would be a fleeting illusion, at least in terms of real value (purchasing power of the dollar). Such gains would tend to be losses, in real terms, with the stocks valued in terms of Swiss francs, for example, or valued against what would be a rapidly-increasing pace of domestic U.S. inflation.

Unexpected economic weakness also savages projections of headline, cash-based, federal-budget deficits (particularly the 10-year versions) as well as projected funding needs for the U.S. Treasury. Current fiscal "good news" is from cash-based, not GAAP-based and accounting projections, where comparative year-ago, cash numbers recently were distorted against U.S. Treasury and government activity operating *sub rosa*, in order to avoid the limits of a constraining debt ceiling (see [Commentary No. 672](#)).

All these crises should combine against the U.S. dollar, likely in the very-near future. That said, recent faux market perceptions of domestic economic, financial-system and monetary tranquility have boosted the U.S. dollar's strength significantly in global trading and have contributed to savaging the prices of precious metals. Again, such should not prevail in the context of underlying reality. The actual fundamental problems threatening the U.S. dollar could not be worse. The broad outlook has not changed. The key issues include, but are not limited to:

- ***A severely damaged U.S. economy, which never recovered post-2008 and is turning down anew.*** The circumstance includes a widening trade deficit (an initial improvement reported for the third-quarter 2014 trade balance should prove to be transitory, with a negative first revision already in place), as well as ongoing severe, structural-liquidity constraints on the consumer, which are preventing a normal economic rebound in the traditional, personal-consumption-driven U.S. economy (see *Opening Comments* of [Commentary No. 673](#)). Sharply-negative economic reporting shocks, versus unrealistically-positive consensus forecasts, remain a heavily-favored, proximal trigger for the pending dollar debacle.
- ***U.S. government unwillingness to address its long-term solvency issues.*** Those controlling the U.S. government have demonstrated not only a lack of will to address long-term U.S. solvency issues, but also the current political impossibility of doing so. The impact of the shift in control of Congress will be assessed in the weeks ahead, but the change does not appear likely to alter the systemic willingness to address the underlying fundamental issues, specifically to bring the GAAP-based deficit into balance. Any current fiscal "good news" comes from cash-based, not GAAP-based accounting projections. The GAAP-based version continues to run in the \$6-trillion-

plus range for annual shortfall, while those in Washington continue to increase spending and to take on new, unfunded liabilities. The history and issues here are explored in the first installment of the *Hyperinflation Report*, as previously linked; the initial fiscal-2014 details are discussed in [Commentary No. 672](#).

- ***Monetary malfeasance by the Federal Reserve, as seen in central bank efforts to provide liquidity to a troubled banking system, and also to the U.S. Treasury.*** Despite the end of the Federal Reserve's formal asset purchases, the U.S. central bank monetized 78% of the U.S. Treasury's fiscal-2014 cash-based deficit, as discussed in [Commentary No. 672](#). The quantitative easing QE3 asset purchase program effectively monetized 66% of the total net issuance of federal debt to be held by the public during the productive life of the program (beginning with the January 2013 expansion of QE3). The monetization process was completed with the Federal Reserve refunding the interest income it earned on the Treasury securities to the U.S. Treasury. With highly tenuous liquidity conditions for the banking system and the Treasury, it would not be surprising in this period of increasing instability to see covert Federal Reserve activities masked in the purchases of Treasury debt by nations or other entities financially friendly to or dependent upon the United States.
- ***Mounting domestic and global crises of confidence in a dysfunctional U.S. government.*** The positive rating by the public of the U.S. President tends to be an indicative measure of this circumstance, usually with a meaningful correlation with the foreign-exchange-rate strength of the U.S. dollar. The weaker the rating, the weaker tends to be the U.S. dollar. The positive rating for the President is at an historic low, post-election. Early post-election activity indicates rapidly disintegrating chances of any shift towards constructive cooperation between the White House and the new Congress in addressing fundamental issues such as non-recovered, faltering economic activity and the consumer liquidity crisis, and addressing the nation's long-range solvency issues, let alone addressing contentious issues such as immigration. Conditions here could devolve rapidly into an extreme political crisis (see *Opening Comments* of [Commentary No. 673](#))
- ***Mounting global political pressures contrary to U.S. interests.*** Downside pressures on the U.S. currency generally are mounting, in the context of global political and military developments contrary to U.S. strategic, financial and economic interests. Current conditions include the ongoing situation in Ukraine versus Russia and the extremely-volatile circumstances in the Middle East.
- ***Spreading global efforts to dislodge the U.S. dollar from its primary reserve-currency status.*** Active efforts or comments against the U.S. dollar continue to expand. In particular, anti-dollar rhetoric and actions have been seen with Russia, China, France and India, along with some rumblings in OPEC and elsewhere.

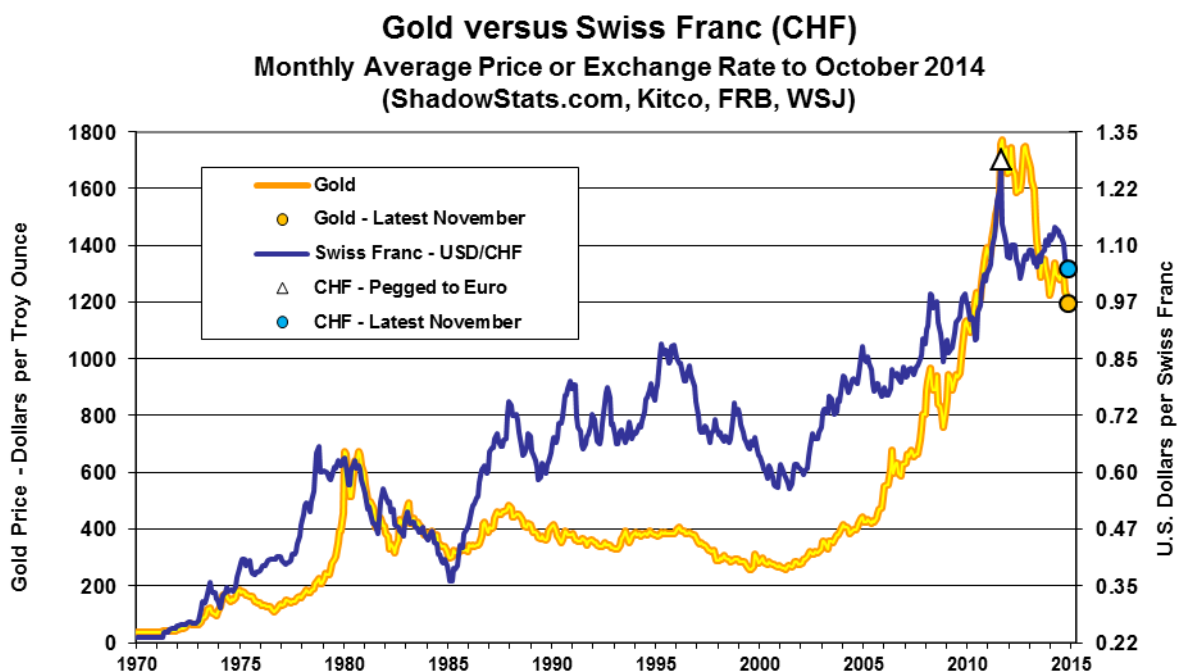
When the selling pressure breaks massively against the U.S. currency, the renewed and intensifying weakness in the dollar will place upside pressure on oil prices and other commodities, boosting domestic inflation and inflation fears. Domestic willingness to hold U.S. dollars will tend to move in parallel with global willingness, or lack of willingness, to do the same. These circumstances will trigger the early stages of a hyperinflation. Both the renewed dollar weakness and the resulting inflation spike should boost the prices of gold and silver, where physical holding of those key precious metals remains the ultimate hedge against the pending inflation and financial crises.

**Monthly Gold Graphs.** The recent sharp rally in the value of the U.S. dollar, and the heavy selling of gold and silver, have backed off minimally. Selling pressure on oil has continued, likely reflecting U.S.-orchestrated efforts to place Russia under increased financial stress. Given mixed pressures from other global political instabilities, which are not likely to abate, oil prices also should face significant, separate upside pressure when the U.S. dollar comes under heavy selling pressure.

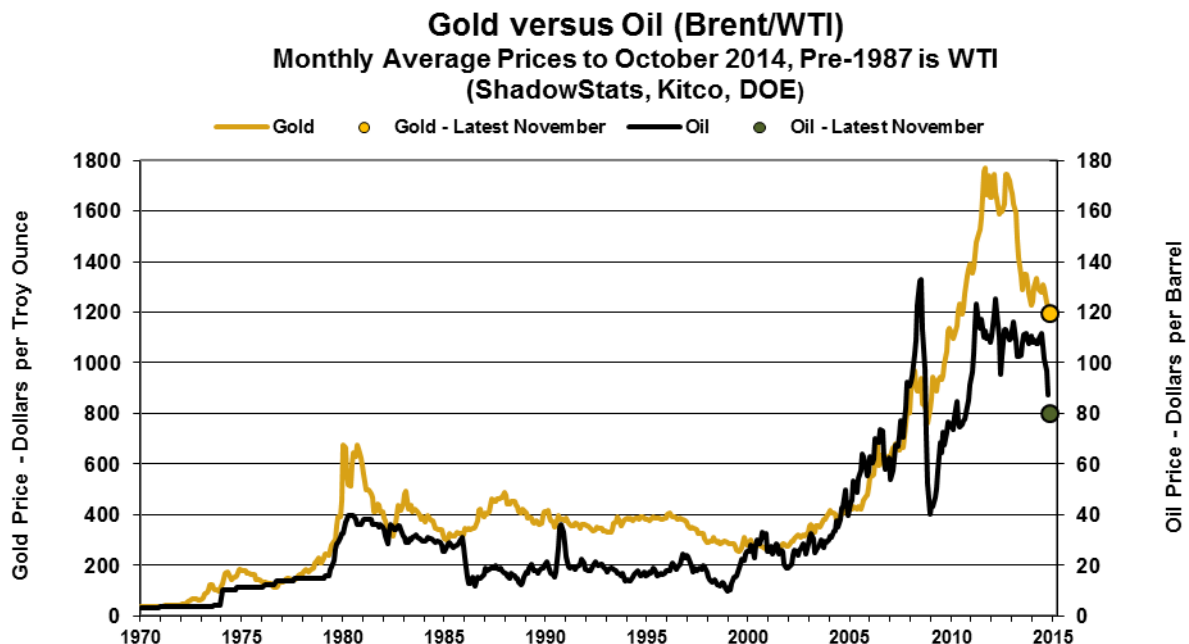
Panicked selling of the U.S. dollar remains likely, as a confluence of negative factors begin to pummel the U.S. currency. Likely issues include the surfacing of an underlying, weak economic reality in reporting of the month ahead (and related implications for Federal Reserve policy), as well as extraordinary and currency-debilitating domestic political issues that appear to be in the offing. Timing of a major swing in market sentiment, by its nature, is difficult to call, but the shift to massive dollar selling easily could come in the immediate future. It likely will hit with little advance notice. Again, the prices of oil and precious metals should rally sharply on a coincident basis with that currency crisis. Heavy selling of domestic stocks and bonds should intensify at the same time, as well.

Following are the graphs of gold prices versus the Swiss franc, oil prices and silver prices that usually accompany the *Commentary* on the monthly CPI release. Again, extremely volatile markets have continued, amidst the mounting and shifting global political tensions, a rapidly weakening U.S. economy and rapidly deteriorating domestic political circumstances.

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, again, irrespective of unusual, recent price volatility. Market movements increasingly should reflect the fundamentals. The "Latest November" price points in the graphs are as of late-day, New York time, November 20th.









## REPORTING DETAIL

### CONSUMER PRICE INDEX—CPI (October 2014)

**Annual CPI-U Inflation Held at 1.7% for Third Month, Despite Tumbling Oil Prices.** Selling pressure on oil has continued—largely unabated since June 2014—tied to what apparently are U.S.-orchestrated efforts to place Russia under increased financial stress. Perhaps not so coincidentally, the effect here also was to reduce gasoline prices before the election. Particularly when the U.S. dollar comes under massive selling pressure, the reduced prices for oil and related products will prove to be unusually ephemeral.

With oil prices having fallen 30% to 35% to date, and domestic retail gasoline prices down about 26% to date, the unadjusted October energy component of the CPI-U had dropped by 9.7% since June, with the seasonally-adjusted energy component down by 5.4% in the same period. In terms of unadjusted gasoline prices since June, the October CPI-U component had dropped by 13.7%, down by 8.3% on a seasonally-adjusted basis, which is worth an added 0.4% seasonally-adjusted CPI-U headline inflation, in terms of gasoline, by itself, and an extra 0.5% in terms of the total energy contribution.

Reflecting energy-price pressures, the year-to-year or annual (unadjusted) CPI-U inflation rate in August 2014 slowed to 1.7%, from 2.0% in July, and from a near-term peak in annual inflation of 2.1% in May and June. The headline annual CPI-U inflation rate has held at 1.7% in September and October, despite downside consensus expectations, for both months, due generally to higher food and "core" inflation (ex-food and energy).

***Government Inflation Numbers Standardly Are Well Shy of Reality.*** That said, inflation as viewed from the standpoint of common experience—generally viewed by the public in terms of personal income or investment use—continues to run well above any of the government's rigged price measures. CPI reporting methodologies in recent decades deliberately were changed so as to understate the government's reporting of consumer inflation, and that inflation-understatement fraud is being expanded. The pace of inflation has been understated, through efforts to adjust for economic substitutions in the CPI surveying (*i.e.*, hamburger being purchased in lieu of more-expensive steak), and by not reflecting actual out-of-pocket costs in its surveying, with generally downside hedonic-quality adjustments made to prices, all as detailed in the [Public Comment on Inflation Measurement](#).

Contrary to its traditional structure, the CPI no longer reflects the cost of living of maintaining a constant standard of living. As a result, those who set or target their income or investment growth to the government's faux headline CPI number simply cannot stay even with inflation, unless they massively exceed their targets.

***Longer-Range Inflation Outlook.*** Going forward, and as discussed in [2014 Hyperinflation Report—The End Game Begins](#) – First Installment Revised and in the *Hyperinflation Watch* section, high risk of a

massive flight from the U.S. dollar threatens to generate rapid, upside energy and global-commodity inflation, which would drive headline U.S. consumer inflation much higher. Nascent dollar problems could surface and accelerate at any time, with little warning. Intensifying 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 that have serious inflation consequences (see the *Hyperinflation Watch* section for further details).

---

### ***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 proffered by Congress and the White House as a tool for reducing Social Security cost-of-living adjustments by stealth. Moving to accommodate the Congress, the BLS announced pending changes to the C-CPI-U estimation and reporting process on October 22, 2014, which are described in [Commentary No. 668](#).*

*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, November 20th, that the headline, seasonally-adjusted CPI-U for October 2014 was unchanged month-to-month at the second decimal point, otherwise up by 0.004% at the third decimal point, following a month-to-month gain of 0.1% (0.09% at

the second decimal point) in September. On a not-seasonally-adjusted basis, the October CPI-U fell by 0.25% (-0.25%) month-to-month, following an unadjusted monthly increase of 0.08% in September.

*Monthly Gasoline Prices.* The BLS used a 6.3% (-6.3%) headline monthly decline in not-seasonally-adjusted gasoline prices for October 2014, where a 6.6% (-6.6%) decline was indicated by the more-comprehensive, industry-based surveying of the Department of Energy. Generally in line with the prior-year's seasonal-adjustments to gasoline prices, the unadjusted 6.3% (-6.3%) price drop ended up as a seasonally-adjusted monthly decline of 3.0% (-3.0%) for October.

*Major CPI Groups.* Encompassed by the seasonally-adjusted unchanged reading for October 2014 CPI-U [down by an unadjusted 0.25% (-0.25)], aggregate October energy inflation was down for the month by an adjusted 1.87% (-1.87%) [down by an unadjusted 4.99% (-4.99%)]. In the other major CPI sectors, adjusted food inflation was up by 0.15% for the month [up by 0.31% unadjusted], while "core" inflation was up by 0.14% [up by 0.21% unadjusted]. Core inflation also showed unadjusted year-to-year inflation of 1.81% in October 2014, versus 1.73% in September 2014.

*Year-to-Year CPI-U.* Not seasonally adjusted, October 2014 year-to-year inflation for the CPI-U was a gain of 1.7% (1.66% at the second decimal point), versus 1.7% (1.66% at the second decimal point) in September and 1.7% (1.70% at the second decimal point) in August.

Year-to-year, CPI-U inflation would increase or decrease in next month's November 2014 reporting, dependent on the seasonally-adjusted monthly change, versus an adjusted "unchanged" [down by 0.03% (-0.03%) at the second decimal point] monthly inflation reported for November 2013. The adjusted change is used here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for November 2014, the difference in November's headline monthly change (or forecast of same), versus the year-ago monthly change, should be added to or subtracted directly from the October 2014 annual inflation rate of 1.66%.

*CPI-W.* The October 2014 seasonally-adjusted, headline CPI-W, which is a narrower series and has greater weighting for gasoline than does the CPI-U, fell by 0.08% (-0.08%) in October [fell by an unadjusted 0.40% (-0.40%)], after increasing by a headline 0.10% [up by 0.06% unadjusted] in September.

*Year-to-Year CPI-W.* Unadjusted, October 2014 year-to-year CPI-W inflation was 1.52%, versus 1.58% in September 2014.

*Chained-CPI-U.* Initial reporting of unadjusted year-to-year inflation for the October 2014 C-CPI-U was 1.46%, versus 1.50% in September. See the discussion in the *Opening Comments* of [Commentary No. 668](#) on the October 22nd BLS announcement of the forthcoming changes to the calculation of consumer inflation, designed to help set-up the C-CPI-U as a new measure for a reduced-inflation, cost-of-living-adjustment (COLA) for Social Security, etc.

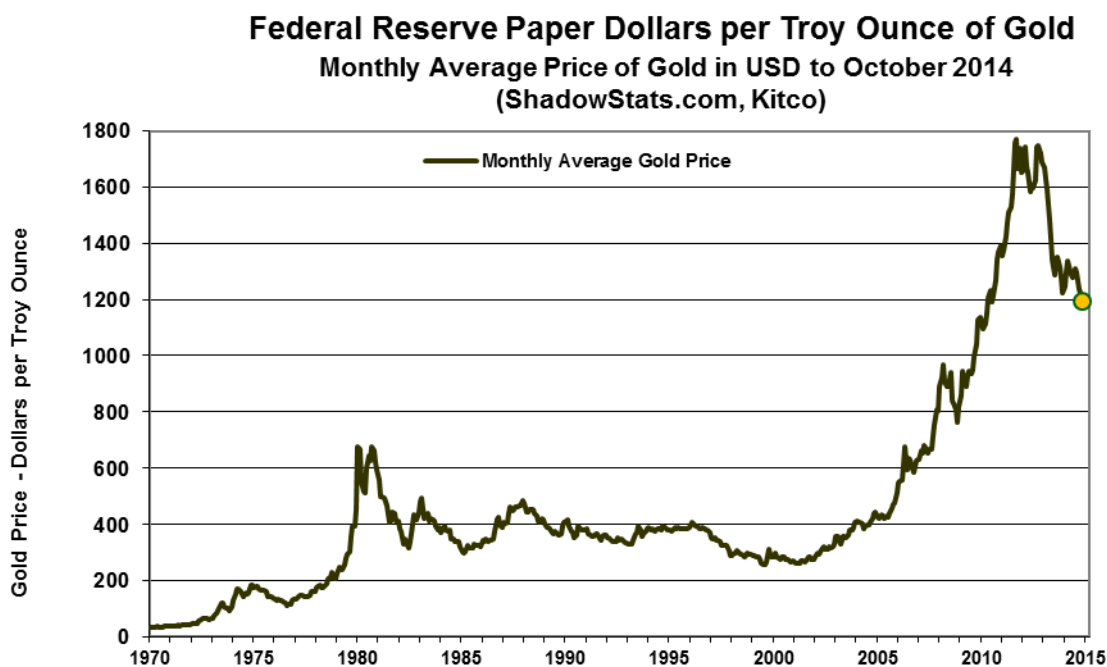
*Alternate Consumer Inflation Measures.* Adjusted to pre-Clinton methodologies—the ShadowStats-Alternate Consumer Inflation Measure (1990-Base)—annual inflation was roughly 5.2% in October 2014, the same level as in September. The October 2014 ShadowStats-Alternate Consumer Inflation Measure (1980-Base), which reverses gimmicked changes to official CPI reporting methodologies back to 1980,

also held at the same level as in September, at about 9.4% (9.38% for those using the second decimal point).

*[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 \$2,594 per troy ounce, based on October 2014 CPI-U-adjusted dollars, and \$11,334 per troy ounce, based on October 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 October 2014 CPI-U inflation, the 1980 silver-price peak would be \$151 per troy ounce and would be \$659 per troy ounce in terms of October 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. They also 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—October 2014—Slowing Fourth-Quarter Growth.*** In nominal terms, before adjustment for inflation, headline monthly retail sales rose by a headline 0.34% in October 2014, having declined by a revised 0.26% (-0.26%) [previously down by 0.32% (-0.32%)] in September, as discussed in [Commentary No. 673](#).

Based on today's (November 20th) reporting of unchanged (up by 0.004% at the third decimal point) monthly inflation in the October 2014 CPI-U, and in the context of a 0.09% headline monthly increase in the September 2014 CPI-U, seasonally-adjusted real (inflation-adjusted) monthly retail sales rose by 0.33% in October, and fell by a revised 0.34% (-0.34%) in September.

The headline October reporting, if it held for the fourth-quarter 2014, would suggest annualized quarterly real growth in retail sales of 1.48%, down from 2.88% in the third-quarter and 6.49% in the second-quarter, and versus an annualized real contraction of 1.06% (-1.06%) in the first-quarter.

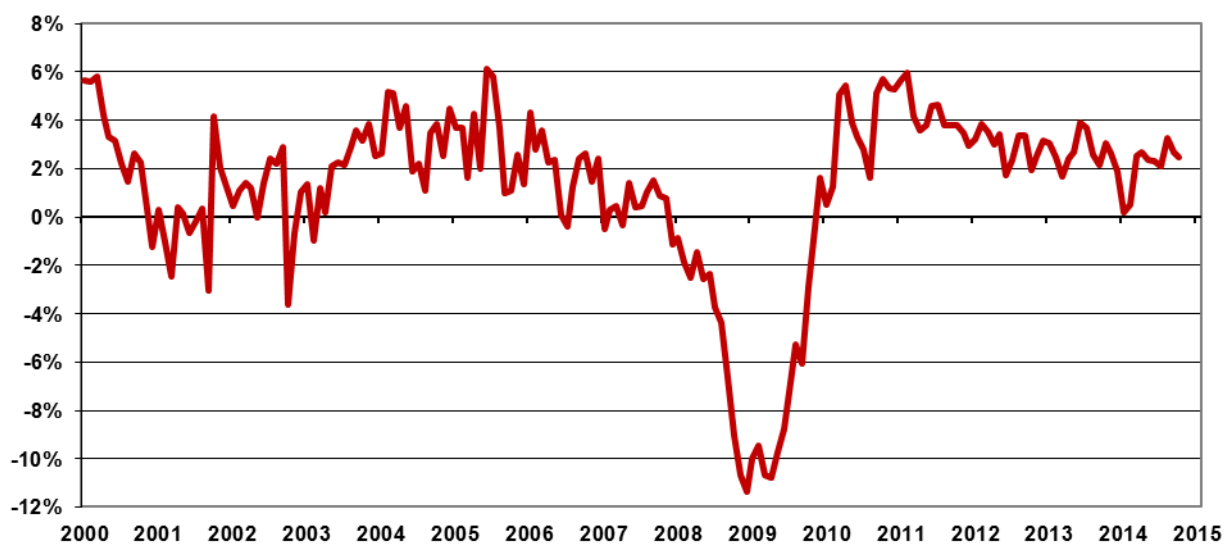
Year-to-year change in October 2014 real retail sales eased back to 2.45%, from 2.68% in September and 3.28% in August, as shown in the second and fourth graphs following. In normal economic times, annual real growth at or below 2.0% would signal an imminent recession. That signal had been given recently; it was approached meaningfully again in October and remains in play, a signal that likely will serve as an indicator of renewed downturn in broad economic activity.

***Real Retail Sales Graphs.*** The first of the following four accompanying graphs 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 slightly higher in the latest headline reporting. Year-to-year activity, which had plunged to a near-standstill in January and February, bounced back, peaking into August, but again easing some into the October reporting. 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.

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

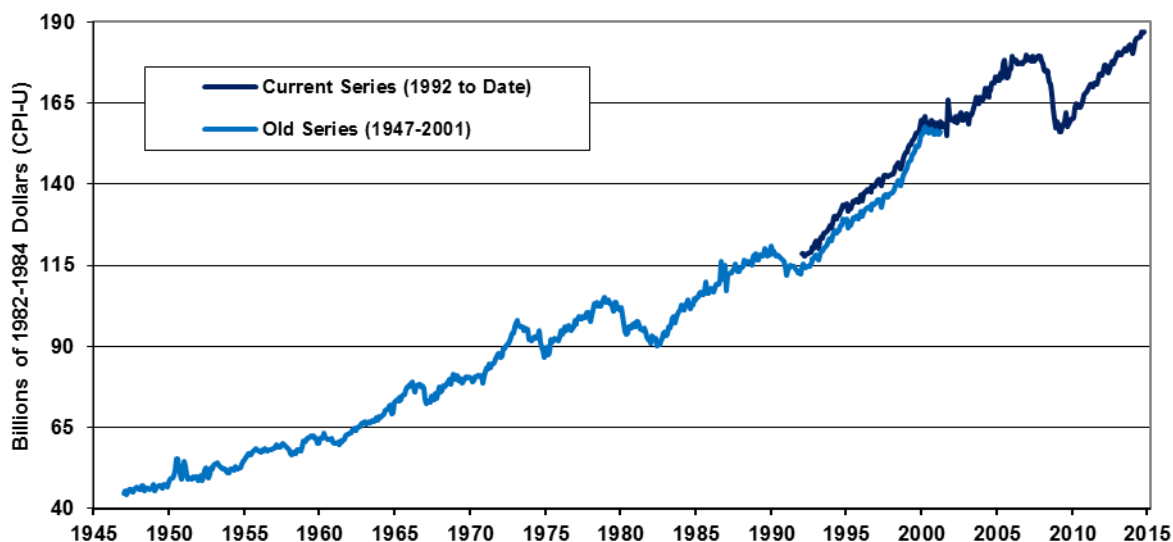


**Real Retail Sales Year-to-Year % Change**  
To October 2014, Seasonally-Adj. (ShadowStats, Census, BLS)

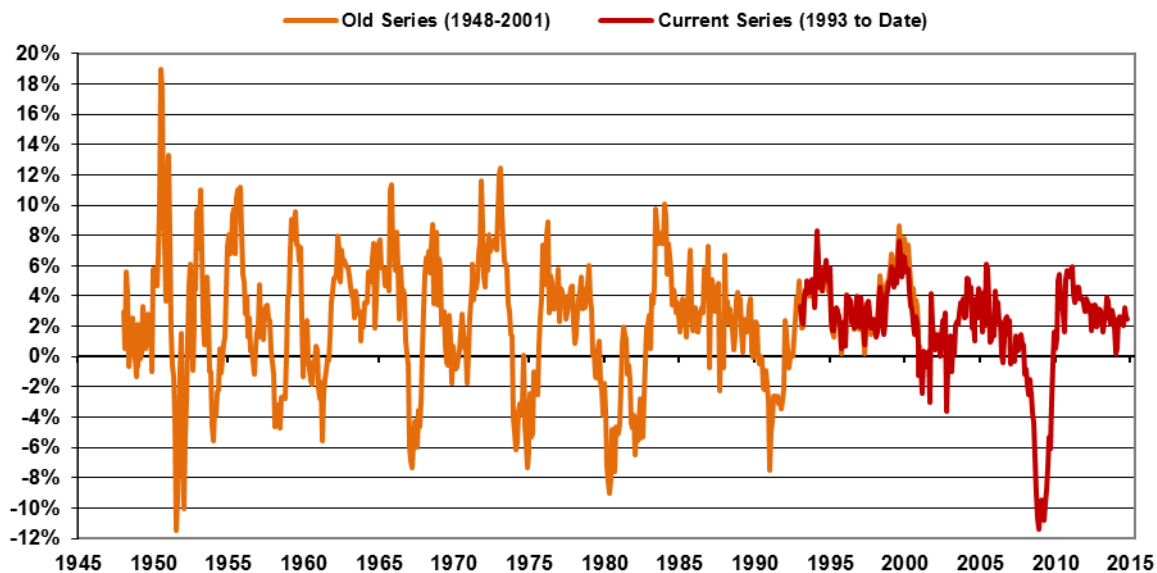




### Real Retail Sales (Deflated by CPI-U) To October 2014, Seasonally-Adj. (ShadowStats, St. Louis Fed)



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



The apparent “recovery” in the real retail sales series and (and series such as industrial production and 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* section, 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.

In addition, as most recently discussed in the *Opening Comments* of [Commentary No. 673](#), there has been no change in the underlying consumer-liquidity fundamentals. With low levels of stagnant, real household income and lack of the ability and/or willingness of the consumer to offset limited income with debt expansion, 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 has begun turning down anew.

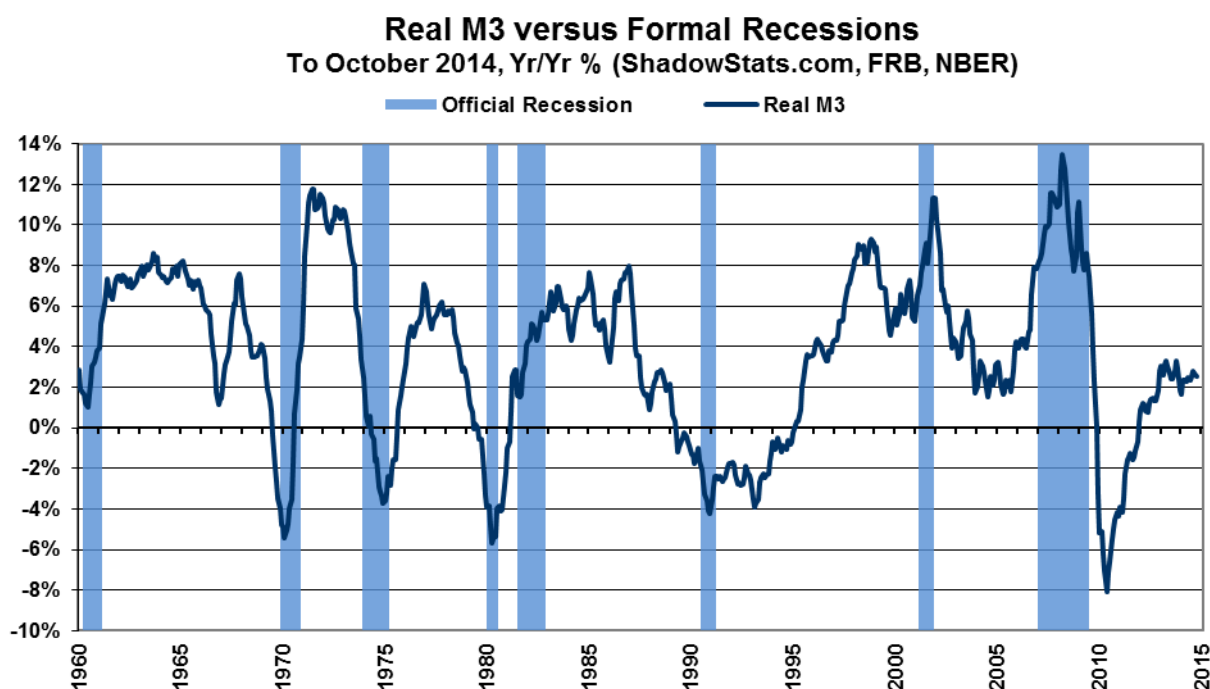
As official consumer inflation continues its upturn in the months ahead, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze—reflected partially by the general pattern of real earnings difficulties seen in the next section—these data should continue to trend meaningfully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

***Real (Inflation-Adjusted) Average Weekly Earnings—October 2014—Rose by 0.57% for the Month.*** Coincident with today's (November 20th) October CPI-W release, the BLS also published real average weekly earnings for the month of October 2014. In the production and nonsupervisory employees category—the only series for which there is a meaningful history—headline real average weekly earnings (deflated by CPI-W) rose by 0.57%, reflecting a headline 0.08% (-0.08%) decline in the seasonally-adjusted CPI-W and a 0.49% gain in earnings. Net of prior-period revisions, the October monthly gain in real earnings was 0.52%. The gain in October earnings was against a revised 0.44% (-0.44%) decline [previously a drop of 0.39% (-0.39%)] in September real earnings.

Year-to-year and seasonally-adjusted, October 2014 real average weekly earnings rose by 1.31%, versus a revised 0.94% (previously 0.99%) annual gain in September. 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 are due to the instabilities in the BLS surveying and the compilation of average weekly earnings.

The regular graph of this series is found 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 (Inflation-Adjusted) Money Supply M3—October 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 October 2014 CPI-U reporting and the latest ShadowStats-Ongoing M3 Estimate—annual inflation-adjusted growth in M3 for October 2014 held at 2.6% for a second month. The unchanged growth rate reflected the pace of annual headline M3 growth holding at 4.2% in October, as well as the annual change in unadjusted CPI-U holding at 1.6% in October.



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 to the present, with significant new softness in recent reporting. Actual post-2009 economic activity has remained relatively low levels of activity—in protracted stagnation.

Despite purported strength in second- and third-quarter 2014 GDP activity, a renewed downturn in official data appears to be underway, and that eventually should lead to official recognition of a “new” or double-dip recession (see *Opening Comments*). Reality remains that the economic collapse into 2009 was followed by a plateau of low-level economic activity—no meaningful upturn, no recovery from or 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](#).

## EXISTING-HOME SALES (October 2014)

**Up for the Month and Year-to-Year, Trailing Twelve Months of Existing-Home Sales Were Down 3.7% from Prior Year.** With a 1.5% headline gain in monthly sales, October 2014 existing-home sales also showed the first year-to-year increase for the series in twelve months. Such ended the longest period of consecutive monthly annual declines in the existing-home series since before the official end of the recession in June 2009.

Nonetheless, the trailing twelve months of activity through October 2014 still was down 3.7% from the year-ago trailing-twelve-month activity. The October 2014 headline annual sales pace of 5,260,000 (an average monthly pace of 438,333) also remained down by 27.7% (-27.7%) from the June 2005 pre-recession peak in activity.

**October Existing-Home Sales Gained 1.5% for the Month, 2.5% Year-to-Year.** Today's (November 20th) release of October 2014 existing-home sales (counted based on actual closings, National Association of Realtors [NAR]) showed a seasonally-adjusted 1.5% headline monthly gain, following a revised 2.5% (previously 2.4%) sales increase in September and an unrevised 1.8% (-1.8%) monthly sales decline in August.

On a year-to-year basis, October 2014 annual sales increased by 2.5%, following a revised annual decline of 1.5% (-1.5%) [previously down by 1.7% (-1.7%)] in September, and an unrevised 5.3% (-5.3%) annual drop in August. Where the headline October number represented the first year-to-year gain in one year, the trailing twelve months of sales through October 2014 still was down by 3.7% (-3.7%) versus the trailing twelve months of sales through October 2013.

The headline October sales data were well within the regular scope of reporting for this series. Smoothed for irregular distortions, the series remained statistically consistent with a period of broad stagnation that has turned into renewed downturn, as seen in the graph in the *Opening Comments*. The quality of data for this series also remains highly questionable.

**Distressed Sales.** The NAR estimated that the portion of total October sales in "distress" eased back to 9% (7% foreclosures, 2% short sales) from the 10% portion of September sales that were in distress (7% foreclosures, 3% short sales). Reflecting continuing lending problems, related banking-industry and consumer-solvency issues, and the ongoing influx of speculative investment money into the existing-housing market, the NAR also estimated that all-cash sales in October 2014 rose to 27% of the total, up from 24% in September 2014, but down from 31% in October 2013.

**Bleak Outlook Continues, Based on Underlying Consumer Fundamentals.** As most-recently discussed in [Commentary No. 673](#), there has been no improvement in underlying consumer liquidity conditions. Correspondingly, with no fundamental growth in liquidity to fuel increasing consumer activity, there is no basis here for expecting an imminent recovery in the housing market.

**Existing-Home Sales Graph.** The regular monthly graph of existing-home sales activity is included in the *Opening Comments* section. For comparison, a graph also is included of smoothed housing starts for single-unit construction (from [Commentary No. 675](#)). New-home sales detail for October 2014 will be published by the Census Bureau on November 26th (see *Week Ahead* section) and covered in *Commentary No. 678* of that date.

---

## WEEK AHEAD

**Against Overly-Optimistic Expectations, Pending Economic Releases and Revisions Should Trend Much Weaker; Inflation Releases Should Be Increasingly Stronger.** Shifting some to the downside, again, from the upside, amidst wide fluctuations in the numbers, market expectations for business activity still are overly optimistic in the extreme. They exceed any potential, underlying economic reality. Continuing, downside corrective revisions and an accelerating pace of downturn in broad-based headline economic reporting, increasingly should hammer those expectations.

**Longer-Range Reporting Trends.** While gradual process of downside shifting in economic-growth expectations has been sporadic, underlying fundamental activity has remained extraordinarily negative. Other than for nonsense-growth in the headline second-quarter GDP (see [Commentary No. 662](#)), and the overstated initial third-quarter GDP growth estimate, renewed weakness has been, and increasingly will be seen in the post-election headline reporting of other major economic series (see [2014 Hyperinflation Report—Great Economic Tumble – Second Installment](#)). Indeed, weaker-than-consensus economic reporting should become the general trend until the unfolding "new" recession receives broad recognition, which minimally would follow the next reporting of a headline contraction in real GDP growth (very possibly a culmination of pending downside revisions to the headline third-quarter 2014 GDP estimate).

A generally stronger consumer inflation trend remains likely, as seen before August, although headline inflation is muted at present by a temporary decline in oil prices. Beyond the spread of earlier oil-based inflation pressures into the broad economy, upside pressure on oil-related prices should continue and be rekindled from the intensifying impact of global political instabilities and a likely near-term weakening of the U.S. dollar in the currency markets. Such excludes any near-term, covert financial sanctions against Russia that are pushing oil prices lower.

The dollar faces eventual pummeling from the weakening economy, continuing perceptions of needed, ongoing quantitative easing, 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 prospective, significantly-weakened dollar, reporting in the year ahead generally should reflect much higher-than-expected U.S. inflation, across the board.

***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). Combined with recent allegations (see [\*Commentary No. 669\*](#)) of Census Bureau falsification of data in its monthly Current Population Survey (the source for the Bureau of Labor Statistics' Household Survey), these issues have thrown into question the statistical-significance of the headline month-to-month reporting for many popular economic series.

### ***PENDING RELEASES:***

**Gross Domestic Product—GDP (Third-Quarter 2014, Second Estimate, First Revision).** The Bureau of Economic Analysis (BEA) will publish its second estimate of, first revision to third-quarter 2014 GDP on Tuesday, November 25th. Following an extremely-overstated, annualized quarterly real headline growth rate of 4.6% for second-quarter GDP, the BEA's "advance" headline reporting of a statistically-insignificant 3.5% annualized real quarterly growth also was well beyond the bounds of reason in this most worthless of popular economic series.

The early-consensus outlook, per Bloomberg, is for Tuesday's first revision to take the third-quarter growth estimate down to about 3.3%. Trade reporting, and revised estimates of construction spending, industrial production and implied inventory changes, however, all published since the "advance" GDP estimate, are suggestive of a more aggressive downside revision. So, too, are the election results.

The first revision (November 25th) could take third-quarter GDP growth from 3.5% to 2.5% or less; the second revision (December 23rd) could take growth to 2.0% or below (see the discussion in the *Opening Comments*.)

**New Orders for Durable Goods (October 2014).** Reporting of October 2014 new orders for durable goods is scheduled for Wednesday, November 26th, by the Census Bureau. Reflecting massive, irregular swings in commercial aircraft orders, aggregate orders surged by 22.5% in July and then plunged by an offsetting 18.3% (-18.3%) in August, but were relatively quiet in September, down by 1.3% (-1.3%). Aircraft orders are long-term—years in advance—so they have limited impact on near-term production. Further, by their nature, they do not lend themselves to meaningful seasonal adjustment.

The headline durable goods orders series, net of that extreme volatility, has been reasonably stagnant and should remain stagnant-to-down in October reporting. Market expectations appear to be for a small decline in orders, well within the normal month-to-month volatility of the series.



As discussed in [Commentary No. 675](#), however, the October PPI inflation measure for manufactured durable goods showed a 0.54% headline monthly pickup, and that, in turn, suggests that the headline durable goods change in October will be reduced, in real terms, net of inflation.

**New-Home Sales (October 2014).** The October 2014 new-home sales report also is due from the Census Bureau on Wednesday, November 26th. Smoothed for extreme and nonsensical monthly gyrations, a pattern of stagnation or intensifying downturn appears to be in play for the new-home sales series. While monthly changes in activity here rarely are statistically-significant, still-unstable reporting and revisions (both likely to the downside) remain a fair bet for October. Consensus outlook appears to be for little change

Home sales activity, in general, continues to be restricted by severe liquidity constraints on the U.S. consumer (see discussion in [Commentary No. 673](#)). Both the existing-home sales (see today's *Opening Comments* and *Reporting Details* sections) and the new-home sales series remain highly unstable, but increasingly they should move to the downside in activity, looking increasingly like the graph of smoothed single-unit housing starts shown in the *Opening Comments* section.

---