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

COMMENTARY NUMBER 680
November Retail Sales, Financial-Market Distortions

November Retail Sales Gain Boosted by Spurious Seasonal Adjustments,
0.5% of 0.7% Headline Sales Gain Tied Just to Gasoline-Seasonality Issues

Irrational Markets Continue as Great Dollar Calamity Nears

PLEASE NOTE: The next Commentary *is planned for Monday, December 15th, covering the November PPI and industrial production, followed by one on Tuesday, covering housing starts, and one on Wednesday, covering the CPI and real retail sales and earnings.*

A Special Commentary *on Friday, December 19th, Will Review Developments of the Year Past and Preview Likely Developments of the Year Ahead.*

Best wishes to all — John Williams

OPENING COMMENTS AND EXECUTIVE SUMMARY

Key Markets Reflect Massively Misaligned U.S. Dollar. *Touched upon here are currency (U.S. dollar), precious metals and oil markets. These and the equity and credit markets will be covered in much more specific and greater detail in the December 19th* Special Commentary. Strength in the exchange-rate value of the U.S. dollar against other major Western currencies remains the primary distorting element, at present, in various financial markets. Relative fundamentals supporting the dollar and the current circumstance range from popular market perceptions of a strong U.S. economy and a Federal Reserve in stable control of its system, to improving U.S. fiscal conditions.

Based on GDP Reporting, U.S. Economy Is the Strongest in More than a Decade. Really? Each of those positive perceptions, viewed relative to major U.S. trading partners, is terribly flawed and should not outlive first-quarter 2015. Systemic shocks and negative surprises lie ahead, as headline underlying U.S. economic reporting turns lower, and any faux "good" behavior by the Fed or federal government evaporates along with the illusion of a relative economic boom.

Other elements ranging from low interest rates, to a nonfunctioning federal government and a widening trade deficit should join in a confluence of negative factors, along with degraded economic and related federal-government and central-bank behavior, to drive the U.S. dollar into oblivion.

The Panic of 2008 continues; it never went away. To prevent systemic collapse at the time, governments and central banks took stop-gap, not corrective actions. They only pushed otherwise unresolvable issues into the future, and that future rapidly is closing in again on the system. The U.S. economy never recovered; it remains severely, structurally impaired and is turning down again. The U.S. banking system remains impaired and will face an intensifying crisis with the deteriorating economy. The federal government has no viable approach for addressing its long-term solvency issues, and the rest of the world has lost confidence in, and patience with, U.S. actions or lack of same.

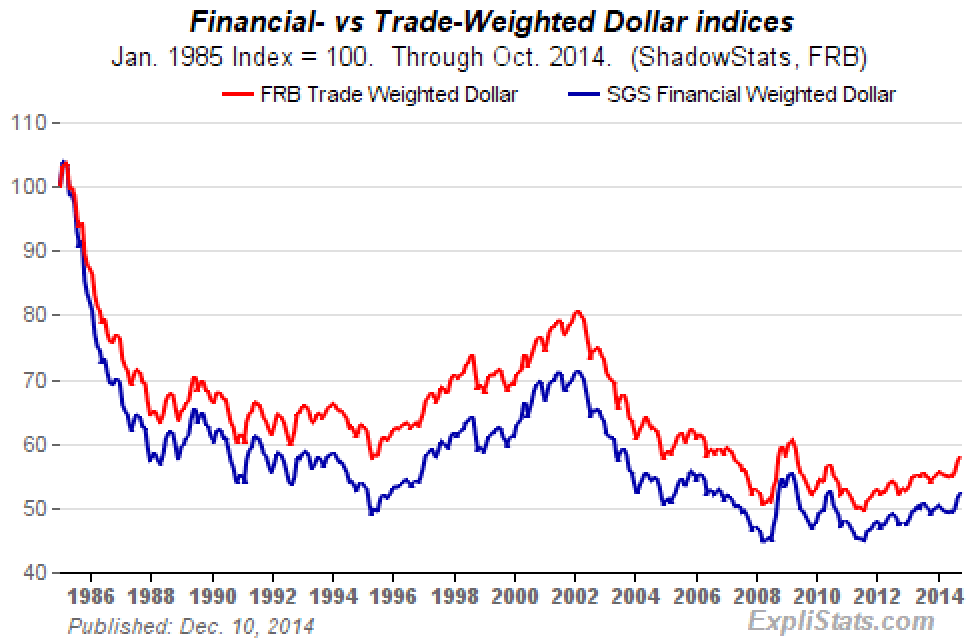
As discussed in recent *Commentaries*, in the *Hyperinflation Reports*, in the *Summary Hyperinflation Outlook*, and as will be detailed point-by-point in the upcoming December 19th *Special Commentary*, the underlying fundamentals for the U.S. dollar simply could not be worse. With the developing confluence of extraordinarily negative factors, the U.S. dollar should turn sharply lower, facing a massive sell-off and panicked dumping. Yet, the dollar is strong, at the moment.

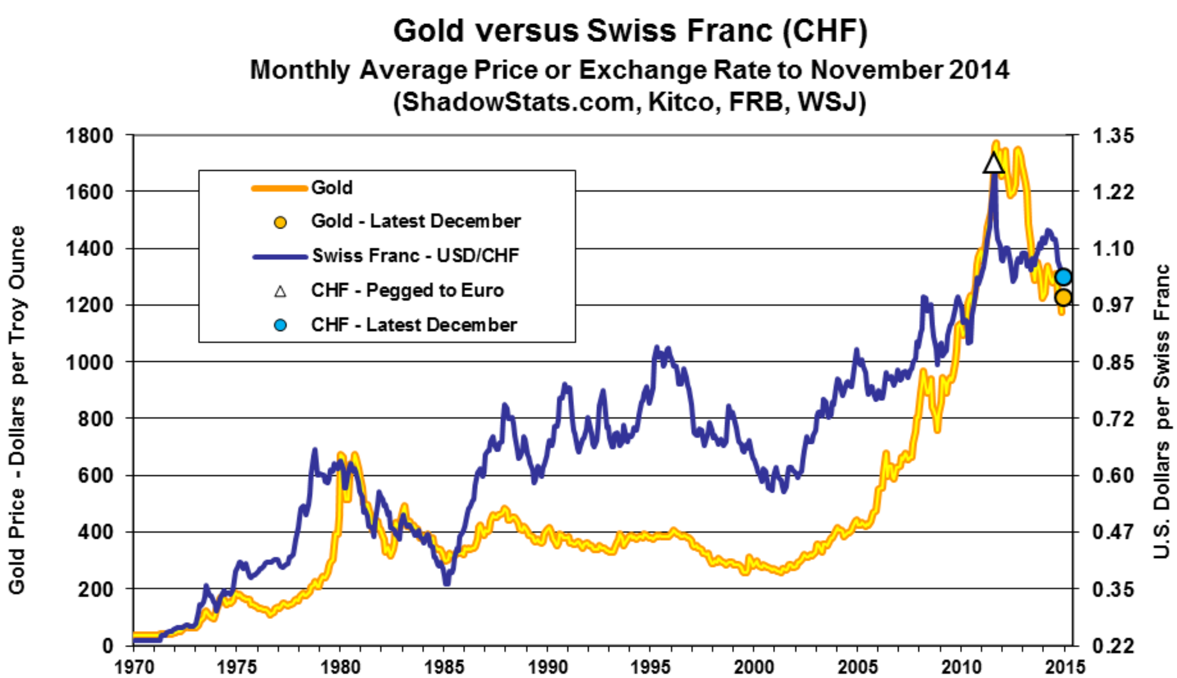
Strong Dollar Remains a Primary Distorting Factor for Oil and Precious Metals. The graphs that follow show recent activity of the dollar in the currency, gold, silver and oil markets. The stronger U.S. currency has been a primary depressant for oil prices, which have continued to decline. Also at play with falling oil prices is an apparent covert effort by the United States in creating financial stress and pressure on Russia.

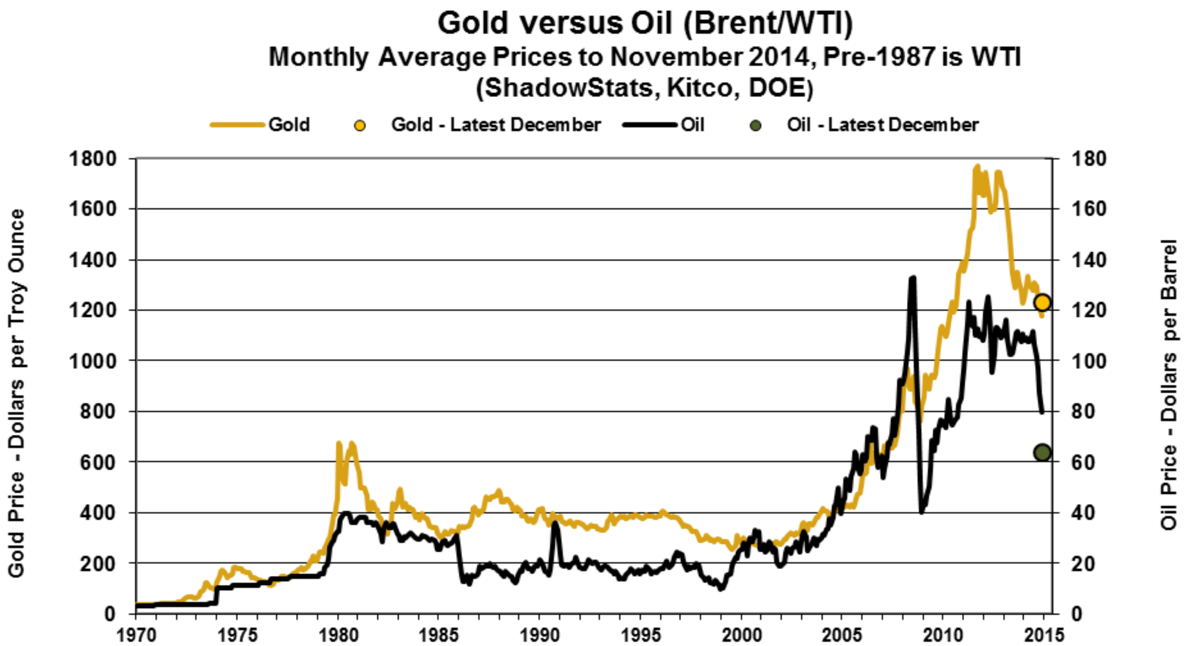
The stronger dollar also has been a primary depressant of, or otherwise has reflected shifts of underlying sentiment for, gold and silver prices, which currently are off their bottom levels of November.

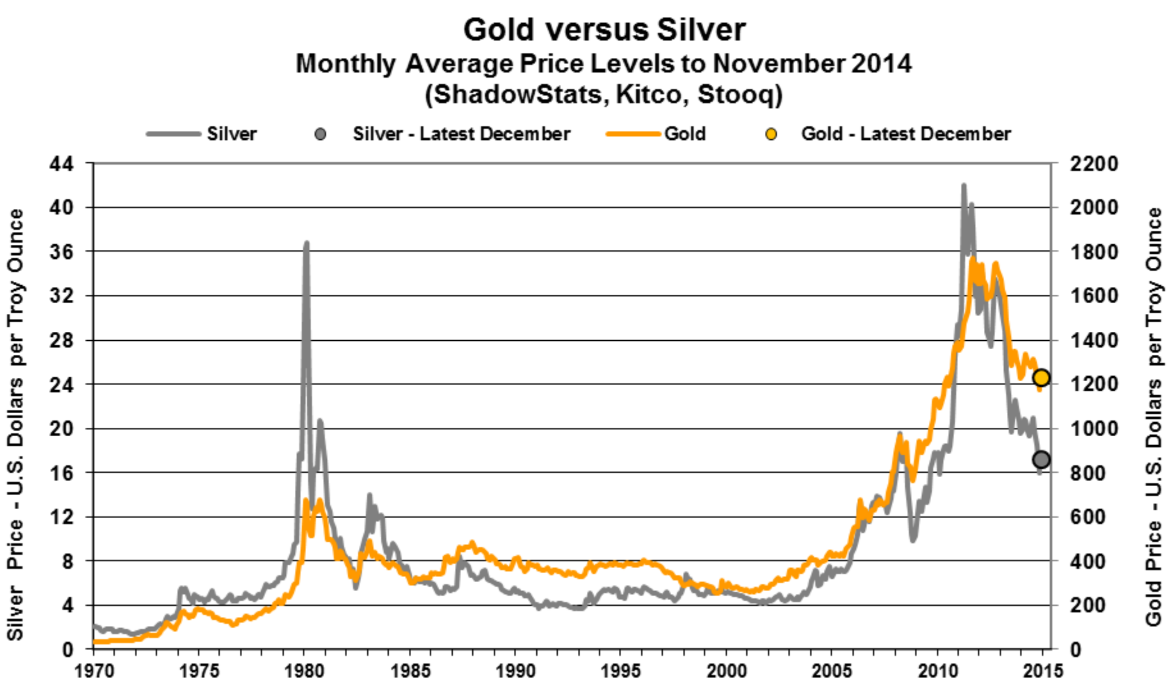
The first graph following plots the average monthly level of the Fed's Major Currency Trade-Weighted U.S. Dollar and the ShadowStats Financial-Weighted U.S. Dollar through November 2014 (see the Alternate Data tab at www.ShadowStats.com), showing the recent uptrend in the dollar in the context of movement that still is well within the trading bounds of the post-panic period.

The next three graphs are the traditional gold graphs that usually accompany the CPI *Commentaries*, updated through today (December 11th), reflecting late-afternoon New York prices at the "Latest December" point. At such time as the U.S. dollar begins to sell-off sharply, offsetting sharp rallies likely will be seen on coincident basis for gold and silver prices, as well as for oil prices.


Financial- vs Trade-Weighted Dollar indices
Jan. 1985 Index = 100. Through Oct. 2014. (ShadowStats, FRB)
FRB Trade Weighted Dollar
SGS Financial Weighted Dollar
110
100
90
80
70
60
50
40
1986 1988 1990 1992 1994 1996 1998 2000 2002 2004 2006 2008 2010 2012 2014
Published: Dec. 10, 2014
ExpliStats.com


Gold versus Swiss Franc (CHF)
Monthly Average Price or Exchange Rate to November 2014
(ShadowStats.com, Kitco, FRB, WSJ)
Gold
Gold - Latest December
Swiss Franc - USD/CHF
CHF - Pegged to Euro
CHF - Latest December
Gold Price - Dollars per Troy Ounce
U.S. Dollars per Swiss Franc
1800
1600
1400
1200
1000
800
600
400
200
0
1.35
1.22
1.10
0.97
0.85
0.72
0.60
0.47
0.35
0.22
1970 1975 1980 1985 1990 1995 2000 2005 2010 2015





Today's Missive (December 11th). The balance of this *Commentary* concentrates on today's headline reporting of November 2014 retail sales and on updated, underlying consumer liquidity fundamentals, both in these *Opening Comments* and in the *Reporting Detail* section.

The *Hyperinflation Summary* is unchanged, but it should be considered in the context of the preceding discussion on the U.S. dollar. The *Week Ahead* section previews reporting for the November PPI and CPI, as well as for industrial production and housing starts.

Retail Sales—November 2014—Strong Growth Boosted by Spurious Seasonal Adjustments. Apparent spurious seasonal adjustments to gasoline prices, by themselves, and in the context of retail sales for gasoline stations, accounted for roughly 0.5% of the headline 0.7% gain in headline aggregate November retail-sales activity, separate from other reporting issues.

Per the surveying of the Department of Energy, monthly average gasoline prices fell by 7.9% (-7.9%) in November 2014, on a not-seasonally-adjusted basis. That should translate into a headline seasonally-adjusted 5.5% (-5.5%) decline in retail gasoline prices for the November CPI-U (see *Week Ahead* section). Seasonally-adjusted gasoline-station sales generally move in tandem with the adjusted change in retail gasoline prices.

What was a headline decline of 9.4% (-9.4%) in November gasoline-station sales, before seasonal adjustments, was only a headline decline of 0.8% (-0.8%) after seasonal adjustments. In theory, regular variations in monthly-driving activity and gasoline consumption are accounted for in the seasonally-adjusted numbers, so the bulk of the remaining change is in gasoline pricing. The difference between the headline adjusted decline of 0.8% (-0.8%) in gasoline station sales, and the more-realistic 5.5% (-5.5%) gasoline-price decline, is that the bulk of the headline aggregate retail sales gain—0.5% of the 0.7%—was due to just this overestimation of (underestimation of the decline in) seasonally-adjusted gasoline pricing and sales.

Headline Sales Topped Expectations. That said, headline nominal retail sales rose by a statistically-significant 0.7% in November, beating market expectations of a 0.4% gain (Bloomberg), on top of upside revisions to the prior estimates of September and October sales. Beyond gasoline issues, the reported growth here was in the context of unstable gains from unreliable auto sales reporting, and other heavily-distorted seasonal adjustments. Further, the aggregate retail sales gain was not supported by underlying economic fundamentals tied to consumer conditions.

November begins the two-month Holiday Shopping Season that dominates the annual activity of the retail-sales trade. Beyond regular seasonal-adjustment difficulties tied to the vagureries of Thanksgiving's timing, poor-quality headline reporting is exacerbated by the non-comparable nature of the concurrent seasonal-adjustment reporting process (see discussion at the end of the *Reporting Detail* section).

Next month's revisions to November sales, in conjunction with headline December reporting, and subsequent revisions in January, will set the tone for reported consumer activity in this Holiday Season. Given anecdotal evidence of soft consumer activity, so far, and the continued weakness indicated in underlying consumer indicators (see next major section), positive market expectations are a good bet to be disappointed on the downside.

Where initial October 2014 retail-sales reporting had suggested a sharply slowing pattern of nominal retail sales growth for fourth-quarter versus third-quarter 2014, a slowing pattern in quarterly growth still is in place, but it was heavily mitigated by reporting of the stronger number for November and the upside first-revision to October's estimated activity.

Nominal (Not-Adjusted-for-Inflation) Retail Sales—November 2014. Not adjusted for consumer inflation, headline November 2014 retail sales showed a statistically-significant, seasonally-adjusted, headline monthly gain of 0.72%, with a monthly gain of 1.08% before prior-period revisions. That was against a revised, statistically-significant gain of 0.51% in October, and versus a revised 0.07% (-0.07%) decline in September.

Annual Change. Year-to-year sales growth increased to a statistically-significant 5.13% in November 2014, versus a revised 4.52% gain in October, and a revised 4.58% annual gain September. The November 2014 annual change reflected an upside boost of 0.2% from a downside revision to the November 2013 level of activity, while the October 2014 annual growth rate was reduced negligibly by an upside revision to the October 2013 number.

***Reporting Issues*.** Those year-ago revisions are simply junk-reporting out of the concurrent seasonal-adjustment process, which leaves headline data non-comparable with all the other historical data, shifting seasonally-adjusted headline activity between months, by stealth (see *Reporting Instabilities and Distortions* in the *Reporting Detail* section). Generally, the near-term, headline reporting in retail sales is of negligible reliability when first published, but the nominal data become increasingly reliable over several years of revisions and annual retail census surveys.

Real (Inflation-Adjusted) Retail Sales—November 2014. The headline 0.72% November 2014 retail sales gain was before accounting for inflation. Real retail sales growth for November (net of inflation), will be reviewed along with the headline estimate of consumer inflation, the November 2014 CPI-U, in the December 17th *Commentary No. 683*. November headline inflation should be flat-to-minus, with minimal impact likely, in real terms, on this morning's headline nominal-retail sales growth rate (see *Week Ahead* section).

Intractable Consumer-Liquidity Issues Still Severely Constrain Retail Sales Activity. Updating the real median household income discussion of *Commentary No. 679*, and the last regular discussion of structural consumer liquidity problems in *Commentary No. 678*, the following graphs reflect the latest information available, including the October 2014 consumer credit numbers released recently by the Federal Reserve.

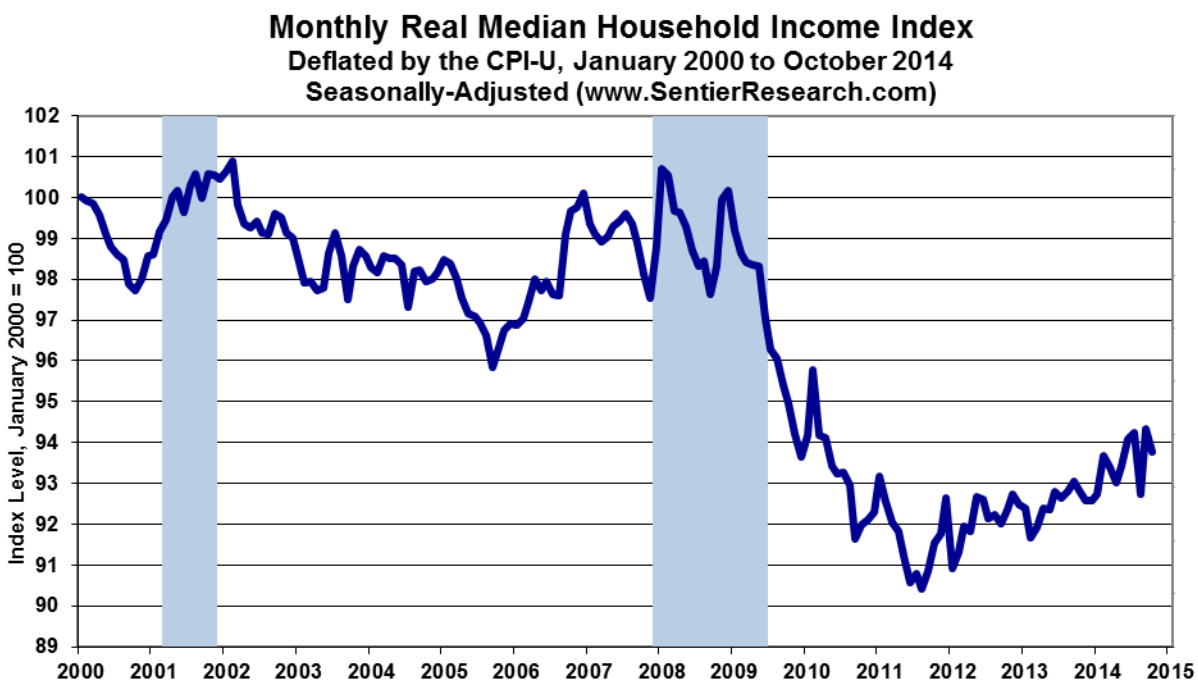
The primary structural issue preventing meaningful, domestic U.S. economic growth remains impaired consumer liquidity. Without real growth in income, and without the ability and/or willingness to offset declining purchasing power with debt expansion, the consumer lacks the ability to fuel traditional, consumption-based growth or recovery in U.S. economic activity, including not only retail sales and the personal-consumption account in the GDP, but also residential investment and related construction spending.

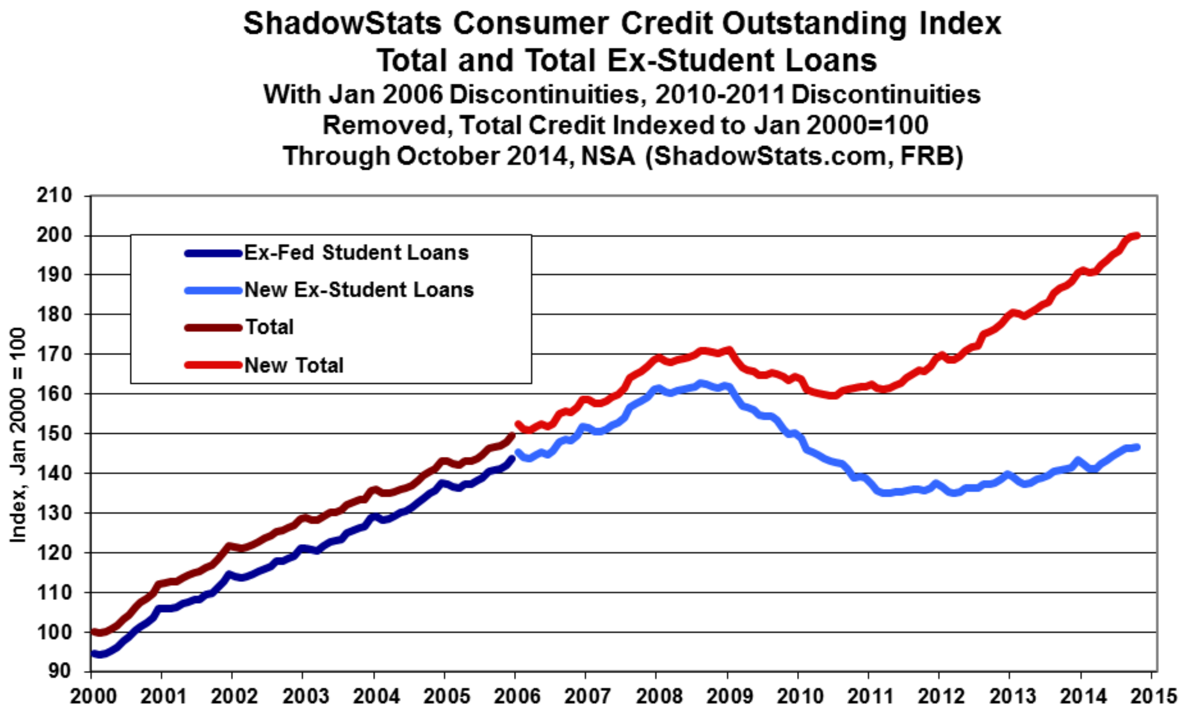
The first two graphs show monthly real median household income through October 2014, as reported by www.SentierResearch.com, and the October 2014 detail for the Federal Reserve's series on consumer credit outstanding.

Real median household income showed continued, low-level stagnation through October 2014, remaining near its cycle low, despite some up-trending month-to-month volatility. When headline GDP purportedly started its solid economic recovery in mid-2009, household income plunged to new lows.

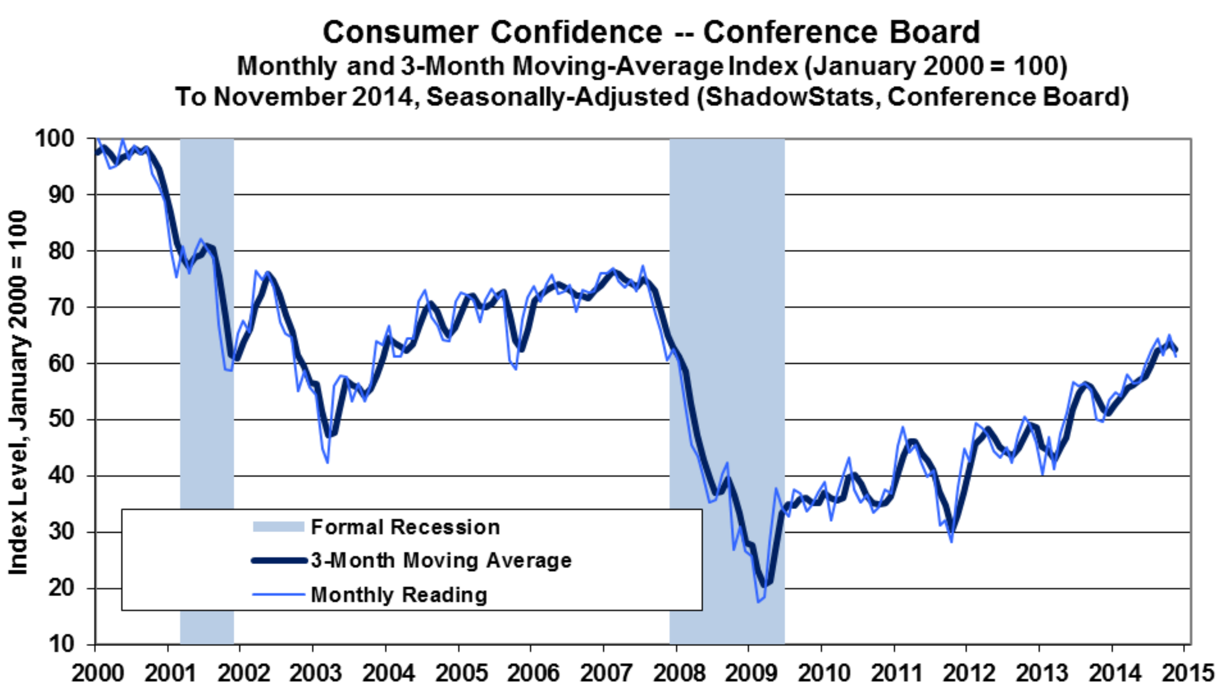
Deflated by headline CPI-U, the same series published by the Census Bureau, on an annual basis (*Commentary No. 658*), confirmed that 2013 annual real median household income continued to hold at a low level of activity. In historical perspective, 2011, 2012 and 2013 income levels were below levels seen in the late-1960s and early-1970s. Such indicated the long-term nature of the evolution of the major structural changes impairing the current economy. Further discussion of these issues is found in the two installments of the *2014 Hyperinflation Report*, linked in the *Hyperinflation Watch* section.

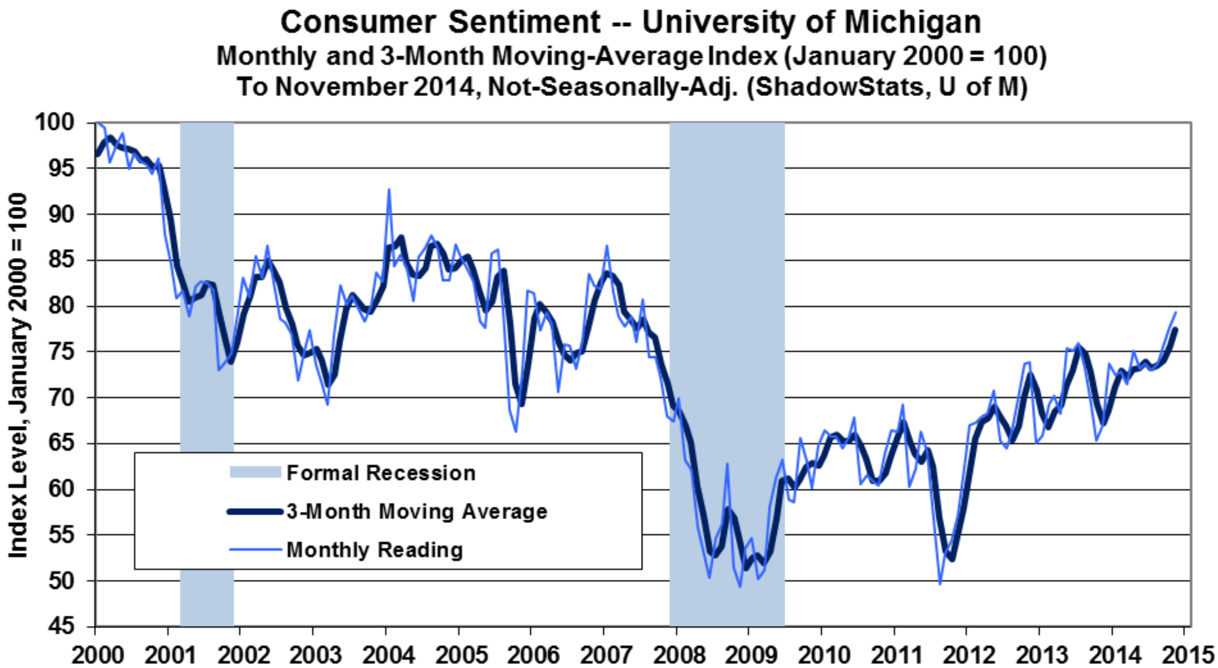
Growth in consumer credit, post-2008 Panic, has continued to be dominated by growth in federally-held student loans, not in bank loans to consumers that otherwise would fuel broad consumption growth. The upside notch in September 2014 student-loan activity reflected the regular seasonal jump at the beginning of the school year, while the subsequent October activity flattened out. These disaggregated data are available and plotted only on a not-seasonally-adjusted basis.



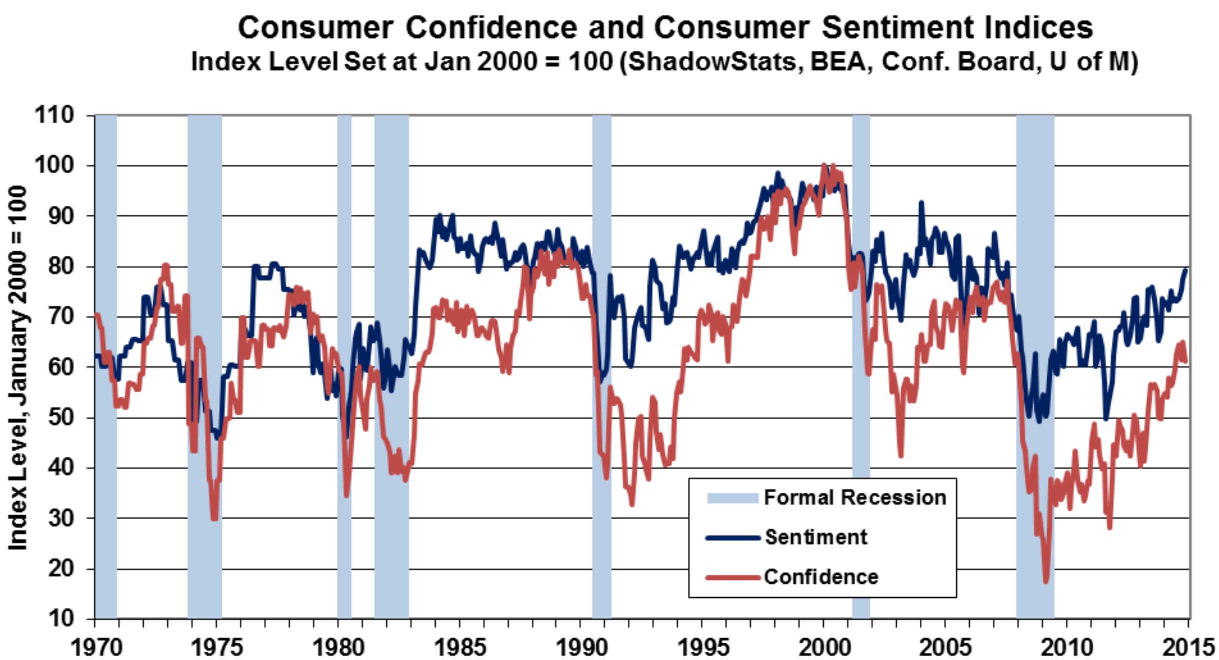


The next two graphs show detail through November 2014 for the seasonally-adjusted Conference Board's Consumer Confidence Index and the University of Michigan's not-seasonally-adjusted Consumer Sentiment Index. Although confidence fell and sentiment rose in November, both series remain at levels typically seen in recessions.





As shown in the next graph, the latest readings of both confidence and sentiment still have not recovered levels that preceded any of the formal recessions of the last 40 years, and they generally remain well below, or inconsistent with, periods of historically-strong economic growth that would rival recent headline GDP gains.



There has been no economic recovery here, contrary to the full recovery and new and continuing economic expansion in headline GDP activity that purportedly followed the plunge in economic activity into 2009. Instead, as indicated in these and other consumer-related measures (such as average real weekly earnings, which will be updated in *Commentary No. 683* of December 17th), reality remains that the economic plunge into 2009 was followed by a period of prolonged, low-level stagnation, albeit with some uptrend in activity, but no recovery. The economic data suggest a renewed downturn is underway, with an outright contraction in headline fourth-quarter 2014 GDP increasingly likely (see comments in the latest GDP-related *Commentary No. 677* and in *Commentary No. 679*).

[For further detail on nominal November Retail Sales, see the* Reporting Detail *section. Various drill-down and graphics options also are available to ShadowStats subscribers at our affiliate:* www.ExpliStats.com*].

HYPERINFLATION WATCH

Hyperinflation Outlook Summary. Except for minor language changes tied to updating reference links, this *Summary* has not been changed from the version updated in the November 25th *Commentary No. 677*, which incorporated details from the second estimate of third-quarter 2014 GDP. Nonetheless, the *Summary* should be considered in the context of today's (December 11th) *Opening Comments* on the U.S. dollar.

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 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 earlier). 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 overstated growth in recent GDP reporting. The headline contraction in first-quarter 2014 GDP was the reality; the headline second-quarter GDP boom and continued strong headline GDP growth in third-quarter 2014 were not. The more-recent data appear to have been spiked, at best, by overly-optimistic assumptions on the part of the Bureau of Economic Analysis (BEA). At worst, the bloated growth estimates reflect heavy political massaging. Where third-quarter GDP still may see some near-term downside revision, both second- and third-quarter 2014 GDP growth patterns should suffer heavy downside revisions in the July 30, 2015 benchmark revision. The weak, underlying economic reality should become increasingly and painfully obvious to the financial markets in the domestic economic reporting and accompanying data revisions of the weeks and months ahead, including early indications for an outright contraction in fourth-quarter 2014 GDP.

As expanded upon in the *Opening Comments* of *Commentary No. 677*, 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, discussed in *Commentary No. 668*, actual 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 (see trade deficit analysis in *Reporting Detail section*), 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 the *Opening Comments* of *Commentary No. 678*). 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 continues to show disintegrating chances of a 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 the contentious immigration circumstance. Conditions here still 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.

REPORTING DETAIL

RETAIL SALES (November 2014)

Boosted by Spurious Seasonal Adjustments, November Retail Sales Jumped 0.7%, on Top of Prior-Period Upside Revisions. Headline nominal retail sales rose by a statistically-significant 0.7% in November, beating market expectations of a 0.4% gain (Bloomberg), on top of upside revisions to the prior estimates of September and October sales. The reported growth was in the context of unstable gains in unreliable auto sales reporting, and of spurious and otherwise heavily-distorted seasonal adjustments. Further, the aggregate retail sales gain was not supported by underlying economic fundamentals tied to consumer conditions.

November begins the two-month Holiday Shopping Season that dominates the activity of the retail-sales trade. Beyond regular seasonal-adjustment difficulties tied to the vagureries of Thanksgiving's timing, poor-quality headline reporting is exacerbated by the non-comparable nature of the concurrent seasonal-adjustment reporting process (see discussion at the end of this section). Discussed in the *Opening Comments* section, a separate issue with specific seasonal adjustments to gasoline prices accounted for 0.5% of the headline 0.7% gain in aggregate November retail sales.

Next month's revisions to November sales, in conjunction with headline December reporting, and subsequent revisions in January, will set the tone for consumer activity in this Holiday Season. Given anecdotal evidence of soft consumer activity, so far, and the continued weakness indicated in underlying consumer indicators (see discussion in the *Opening Comments* section), positive market expectations are a good bet to be disappointed on the downside.

Where initial October 2014 detail had suggested a sharply slowing pattern of nominal retail sales growth for fourth-quarter 2014, versus third-quarter 2014, a slowing pattern in quarterly growth still is in place, but it was heavily mitigated by reporting detail in the stronger number for November and the upside first-revision to October's estimated activity.

Nominal (Not-Adjusted-for-Inflation) Retail Sales—November 2014. Not adjusted for consumer inflation, today’s (December 11th) report on November 2014 retail sales—issued by the Census Bureau—indicated a statistically-significant, seasonally-adjusted, headline monthly gain of 0.72% +/- 0.58% (this and all other confidence intervals are expressed at the 95% level), with a monthly gain of 1.08% before prior-period revisions. That was against a revised, statistically-significant gain of 0.51% +/- 0.23% (previously up by 0.34%) in October, and versus a revised 0.07% (-0.07%) decline [previously down by 0.26% (-0.26%), initially down by 0.32% (-0.32%)] in September.

Annual Change. Year-to-year sales growth increased to a statistically-significant 5.13% +/- 0.82% in November 2014, versus a revised 4.52% (previously 4.14%) gain in October, and a revised 4.58% (previously 4.39%, initially 4.31%) annual gain September. The November 2014 annual change reflected an upside boost of 0.2% from a downside revision to the November 2013 level of activity, while the October 2014 annual growth rate was reduced negligibly by an upside revision to the October 2013 number.

Those year-ago revisions are simply junk-reporting out of the concurrent seasonal-adjustment process, which leaves headline data non-comparable with all the other historical data, shifting seasonally-adjusted headline activity between months, by stealth (see *Reporting Instabilities and Distortions*). Generally, the near-term, headline reporting in retail sales is of negligible reliability when first published, but the nominal data become increasingly reliable over several years of revisions and annual retail census surveys.

November Core Retail Sales—Still-Tumbling Gasoline Prices. In an environment of generally rising food prices, and with a further, unadjusted 7.93% (-7.93%) decline in monthly gasoline prices, seasonally-adjusted monthly grocery-store sales rose by 0.30% in November, with gasoline-station sales not coming close to reflecting collapsing gasoline prices. With gasoline prices down by a seasonally-adjusted 5.47% for the month, headline gasoline station sales showed a surprisingly-tame, seasonally-adjusted headline decline of 0.78% (-0.78%), as discussed and corrected in the *Opening Comments*.

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:

<u>Version I:</u> November 2014 versus October 2014 seasonally-adjusted retail sales series—net of total grocery store and gasoline station sales—reflected a monthly gain of 0.97%, versus the official headline gain of 0.72%.

<u>Version II:</u> November 2014 versus October 2014 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—reflected a 0.76% monthly increase, versus the official 0.72% gain.

Real (Inflation-Adjusted) Retail Sales—November 2014. The headline 0.72% November 2014 retail sales gain was before accounting for inflation.

Real retail sales growth for November (net of inflation), will be reviewed along with the headline estimate of consumer inflation, the November 2014 CPI-U, in the December 17th *Commentary No. 683*. November headline inflation should be flat-to-minus, with minimal impact likely, in real terms, on this morning's headline nominal-retail sales growth rate (see *Week Ahead* section).

Liquidity Constraints Impair Consumer Economic Activity. As discussed frequently and updated in the *Opening Comments*, 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 the personal-consumption activity that dominates the headline GDP activity.

Reporting Instabilities and Distortions. The usual seasonal-factor distortions were at play in November 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 the specifics being published or otherwise made public.

As has been a common pattern, the year-ago numbers for October and November were revised, along with the publication of the November 2014 data and revised detail on September and October 2014. The October and November 2013 revisions were due only to the changed seasonal adjustments, not due to the availability of new historical data lower. Where all other seasonally-adjusted historical numbers also were revised, though, those details were not published. Only the new details for October and November 2013 were provided for the earlier numbers. Specifically, a negligible upside revision to October 2013 and a 0.2% downside revision to November 2013 sales indicated meaningful shifts in current headline seasonal-adjustment factors, but without the specifics as to where headline activity was being shifted, or from where it had been taken been taken. Full detail is available internally to the Census Bureau, but the Bureau chooses not publish the detail.

Such 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 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 September 2014-to-November 2014, and in the October 2013-to-November 2013 periods, five months that are published on a non-comparable basis with all the other historical data.

WEEK AHEAD

Against Overly-Optimistic Expectations, Pending Economic Releases and Revisions Should Trend Much Weaker; Inflation Releases Should Be Increasingly Stronger after Temporary Oil-Price Declines. 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, however, 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. Allowing for the nonsense-growth in the headline second-quarter and third-quarter GDP (see *Opening Comments* of *Commentary No. 677*), 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 (which most likely will involve reporting of fourth-quarter 2014 GDP).

A generally stronger consumer inflation trend remains likely, as seen before August, although headline inflation is muted at present, for a couple of months, 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 currently 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:

Producer Price Index—PPI (November 2014)*.* The November 2014 PPI is scheduled for release tomorrow, Friday, December 12th by the Bureau of Labor Statistics (BLS). Detail, however, will be covered in *Commentary No. 681* of Monday, December 15th. Consensus expectations (Bloomberg) are for a headline monthly decline of 0.1% (-0.1%) in November wholesale prices, versus a 0.2% headline increase in October. Other than for a questionable surge in final demand services inflation, final demand goods would be a reasonable bet to pull headline PPI down by more than the consensus outlook. Yet, where the new system has some built-in counterbalances to energy-related inflation, the consensus outlook may not be that unreasonable, plus-or-minus 0.3%.

The energy sector, once again, should be the dominant downside component in the headline monthly data. Based on the two most widely followed oil contracts, not-seasonally-adjusted, monthly-average oil prices fell by 9.1% (-9.1%) and 10.6% (-10.6%) in the month of November, along with a 7.9% (-7.9%) monthly drop in unadjusted average retail-gasoline prices. PPI seasonal adjustments for energy costs in November should offset only partially the headline, unadjusted decline in energy-related costs.

Inflation in food, “core” goods (everything but food and energy), and some still spreading inflationary impact from hard-goods into the soft-services sector, likely would be mitigating factors, again.

The wildcard in this revamped PPI remains the recently-added services sector, which largely is unpredictable, volatile and of limited meaning due to its inflation measurements having minimal relationship to real-world activity. Nonetheless, this new services sector has a greater weighting in the PPI calculation than does the goods sector

The services series, in theory, is much-less dependent on the increasingly "antiquated" concepts of oil, food and "core" (ex-food and energy) inflation of the "hard" production-based economy. Yet, services costs recently had reflected spreading, general inflationary pressures—and shrinking profit margins—from rising prices in that hard economy. That reversed some in October, with lower energy costs boosting margins. Where rising margins are counted as inflationary in the new system, October's aggregate headline 0.2% PPI gain surprised expectations on the upside. As discussed in the prior-PPI *Commentary No. 675*, however, this general approach to "wholesale" inflation is of questionable merit.

Something of a repetition to October's activity could be seen in November, with even lower energy costs boosting margins and supposed services "inflation" even further. Accordingly, against sharply negative energy costs, the aggregate headline November PPI inflation could show a minimal headline monthly decline, generally in line with early-consensus expectations, but, again, that is plus-or-minus 0.3%.

Index of Industrial Production (November 2014). On Monday, December 15th, the Federal Reserve Board will release its estimate of the November 2014 index of industrial production. With early market expectations apparently favoring a solid headline gain in monthly production, risks are high for a downside surprise in the headline reporting.

Risks of such a surprise, including an outright monthly contraction in November, likely would be in the context of downside revisions to prior reporting, with ongoing implied downside adjustments to inventory building.

Residential Construction—Housing Starts (November 2014). The Census Bureau plans the release of November 2014 residential construction detail, including housing starts, on Tuesday, December 16th.

As discussed in *Commentary No. 660* on the August version of this most-unstable of monthly economic series, the headline reporting here simply is worthless. Not only is month-to-month reporting volatility extreme, but also those headline monthly growth rates rarely come close to being statistically significant. Consensus expectations appear, once again, to be for a near-unchanged showing in November, not for what usually is an expected headline monthly surge. Market expectations increasingly have shifted towards a renewed decline in residential construction activity.

The extreme variability seen regularly in the reporting of month-to-month change in this series likely will continue, although, again, with a pattern of no statistical-significance, and with ongoing stagnation and renewed downturn and/or downside revisions seen in the six-month moving-average of the series. This series also is subject to regular and extremely-large prior-period revisions.

In the wake of a 75% collapse in aggregate activity from 2006 through 2008, and of an ensuing five-year pattern of housing starts stagnation at historically low levels, little has changed. As discussed frequently in these *Commentaries*, 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, as updated in the *Opening Comments* section.

Consumer Price Index—CPI (November 2014). The November 2014 CPI is scheduled for release on Wednesday, December 17th, by the Bureau of Labor Statistics (BLS). The headline CPI-U has a fair chance of being flat-to-minus, against early market expectations for small month-to-month decline.

Plunging again, average gasoline prices fell by 7.93% (-7.93%) month-to-month in November 2014, on a not-seasonally-adjusted basis, per the Department of Energy (DOE). While BLS seasonal adjustments to gasoline prices should be positive in November, they still should leave adjusted monthly gasoline prices down by roughly 5.5% (-5.5%) or so for the month. By itself, such an adjusted decline in gasoline prices would leave the headline CPI-U down by roughly 0.3% (-0.3%).

Higher food and “core” (net of food and energy) inflation, however, should offset much of the negative energy number, leading to a headline flat-to-minus headline monthly change in the November CPI.

Annual Inflation Rate. Year-to-year, CPI-U inflation would increase or decrease in 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%. If the headline monthly inflation came in at about at unchanged, the resulting annual inflation pace would be around 1.7% (at the first decimal point), holding at that level again for the fourth month.

